

TARIFF-FREE QUOTAS FOR CLEAN PRIMARY STEEL

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Acknowledgement

This paper draws extensively on the work of David Kleimann, who was a Senior Research Associate at S-Curve Economics.

David passed away in May 2026, and will be greatly missed. He was one of the top trade experts in Brussels, with two decades of experience in law, policy and institutions governing EU and international trade. He was well known and respected for his work focused on the intersection of climate, trade and industrial policies. His past roles included serving as a policy advisor to Bernd Lange, the Chairman of the European Parliament's international trade committee, and acting as a consultant to the World Bank, the European Commission, and the Ministry of Commerce of the People's Republic of China. He was deeply committed to principles of rules-based international trade, to advancing European interests while treating other countries fairly, and to acting pragmatically and effectively to counter the threat of climate change.

In this project, David took earlier work on the concept of a clean steel tariff exemption and developed it into a more detailed set of proposals designed to fit with the EU's policy objectives and its political, institutional and legislative context. While this paper draws extensively on his work, the arguments do not necessarily reflect all of David's views, and any mistakes are solely the responsibility of the current authors. We hope that this project will do justice to David's creativity and commitment.



1 Executive Summary

The global steel sector faces two challenges at once. There is overcapacity in conventional high-emission steel production, and at the same time far too little near-zero emission (or 'clean') primary steel capacity for countries to meet their climate targets, with over 100 Mtpa capacity needed by 2030 compared to less than 1 Mtpa operational now. Early investment in clean primary steel can contribute to industrial competitiveness as well as to meeting climate policy goals, but such investment is not currently supported by conditions in global markets.

The EU's new Steel Regulation implemented from 1 July 2026 seeks to address the first problem: by cutting tariff-free steel imports by 47% and doubling the out-of-quota tariffs to 50%, it considerably reduces market access for imported steel from free trade agreement (FTA) partners and non-FTA partners alike, reducing exposure to global overcapacity within the European market. But the second problem remains to be addressed. Without conditions favourable to clean steel investment in global markets, allowing a faster global transition, Europe's climate goals will not be achieved and its industry is likely to remain exposed to first-mover risks.

In this discussion paper, **we propose that in future iterations of the regulation, the EU should create dedicated tariff-free quotas for near-zero emission primary steel.** For imports beyond the existing quotas, these would more than offset the cost difference between clean and conventional primary steel, an effect not likely to be achieved by the Carbon Border Adjustment Mechanism within the next five years. In return, the EU would seek reciprocal measures such as tariff reductions or tariff-free quotas for EU clean steel exports, commitments on carbon pricing, or the removal of non-tariff barriers to trade in clean iron and steel.

For the EU, agreements of this kind could create opportunities for the first European clean steel producers to export competitively, and over the longer term enable a shift towards clean steel being the price-setter in global markets. In addition to these industrial and climate policy objectives, they could also contribute to steel trade diversification and deeper supply chain and climate cooperation with strategic diplomatic partners. For countries aiming to build competitiveness in clean iron or steel production, these agreements could amplify the effectiveness of domestic policies.

Steel transition partnerships centred on reciprocal market access measures could also include other elements relating to both parties' interests in the steel transition. These could potentially include agreements on common definitions and interoperable standards for clean steel, emissions monitoring and verification arrangements, subsidy acceptability criteria, reciprocal bans on scrap export restrictions, concessional finance, and green iron offtake agreements.

Priority countries for such partnerships with the EU could include Brazil, India, Japan, Korea, South Africa, Türkiye and the UK. In the case of emerging economies, these

partnerships could build on existing institutional infrastructure such as the Global Gateway and the Clean Trade and Investment Partnerships.

As a more stretching objective, a plurilateral agreement on clean steel tariff reduction could be explored in parallel or developed on top of a network of bilateral agreements. This would be much more difficult to achieve, but correspondingly higher impact, potentially creating a large market in which clean steel exports receive preferential treatment, changing the incentives for investment across the steel sector globally.

While the challenges of reaching such an agreement would be considerable, they are likely to be less than those involved in agreeing coordinated international carbon pricing – an approach that has long been discussed as a serious option for diplomacy. A common carbon price would have immediate and uneven impacts on countries' costs of steel production, competitiveness, and trade, since it would affect all existing plants. This would make it extremely difficult to agree. In contrast, coordinated reduction of tariffs for near-zero emission primary steel (almost none of which is yet produced) would affect almost no existing plants and have no immediate impact on trade, but could create a powerful incentive for investment.

If reciprocal arrangements of any kind prove too difficult to agree, the EU could as a fallback approach use stronger regulation to exert leverage over the global market. A regulation that gradually restricted access to the EU market for the most emissions-intensive steel, eventually ending market access for anything but near-zero emission steel, analogous to the EU's carbon intensity regulations for vehicles, would send a stronger signal to steel investment globally than the existing package of policies.

2 Tariff-free quotas to incentivise investment in clean primary steel

Two reasons to support investment in clean primary steel

Governments have two reasons to be interested in enabling investment in clean primary steel¹ production: industrial competitiveness, and climate goals.

A transition to a near-zero emission global steel sector is implied by the net zero emissions and carbon neutrality targets set by most major economies. In this context, countries with abundant low-cost renewable energy resources, especially those that also have good iron ore resources, may have an opportunity to increase their competitiveness as suppliers of iron or steel to global markets. Even in steel-producing countries with less favourable resources, early investment in clean steel deployment – which can drive technology improvement, learning, and supply chain development – is likely to be more beneficial for industrial competitiveness than late investment.

For climate policy goals, deploying near-zero emission primary steel capacity is an urgent priority. Primary steel production accounts for around 85–90% of the sector's emissions.² Although the production of recycled steel is likely to increase, the limited supply of scrap steel means that primary (ore-based) production, which meets around three quarters of global demand at present, is expected to still meet around half of global demand by mid-century.

Creating trade conditions conducive to investment: alternative approaches

With clean steel production currently higher cost than conventional production, the viability of investment in clean primary steel plants depends mainly on domestic policies. However, international trade conditions are influential too, since the potential to export, or the risk of being undercut by imports, are often important considerations in decisions on steel plant investments.

Internationally coordinated carbon pricing has often been discussed as a way to establish a level playing field for clean steel in global markets, but remains far from a reality. The differing carbon intensities of blast furnace steel production across major steel-producing countries mean that a common carbon price would have immediate and uneven impacts on competitiveness and trade. A carbon price of \$200/tCO₂ could increase the national

¹ In this paper, 'clean primary steel', refers to steel that is made with near-zero emission methods (achieving 90% emissions reduction compared to a typical BF-BOF plant), in a process that starts with iron ore and ends with crude steel. We distinguish between this as primary steel, and secondary (recycled) steel which uses scrap steel as its sole input, avoiding the iron production stage and its associated emissions.

² Morrisroe, J. et al. (2025). [Making clean steel competitive in international trade: a positive-sum agenda for policy and diplomacy](#). S-Curve Economics CIC.

average cost of primary steel production by around 100% in Canada, 110% in the EU, 125% in Brazil, 140% in China and 150% in India.³ Because of this, agreeing a common carbon price high enough to create a level playing field for clean primary steel may be difficult to the point of impossibility, at least at this early stage of the transition.

An alternative approach is to reduce the costs of traded clean steel through targeted clean steel tariff reductions or exemptions. Reciprocal agreements of this kind may be more feasible than coordinated carbon pricing because almost no clean primary steel is yet produced globally, meaning that tariff exemptions would have no immediate impact on competitiveness or trade. If domestic policies are in place that make clean steel production commercially viable, then tariff agreements that give clean steel an advantage in international trade could provide a powerful incentive for investment.

Overcapacity and undercapacity

There is a clear logic for differentiating tariffs between conventional steel and clean steel. The global steel sector faces twin challenges of overcapacity in one, and undercapacity in the other.

Overcapacity in conventional, high-emission steel production is widely seen as contributing to low profitability and job losses within the sector, in many countries. The OECD has estimated the excess of global steel production capacity compared to global demand to be 600 Mt in 2024 – equivalent to nearly a third of global production – and forecasts that this will increase.⁴ Since 2024, over half of the G20 countries have responded to this situation by increasing steel tariffs, safeguards or anti-dumping measures.

At the same time, undercapacity in clean primary steel production means the sector is far off-track to meet the Paris Agreement goals. Less than 1 Mtpa of near-zero emission steel capacity is currently operational (around 0.1% of global production), compared to over 100 Mtpa of clean primary steel capacity needed by 2030.⁵

³ Morrisroe, J. et al. (2025).

⁴ OECD (2025). [Steel Outlook 2025](#). OECD Publishing.

⁵ IEA and UN Climate High-Level Champions. (2025). [Breakthrough Agenda Report 2025](#). International Energy Agency.

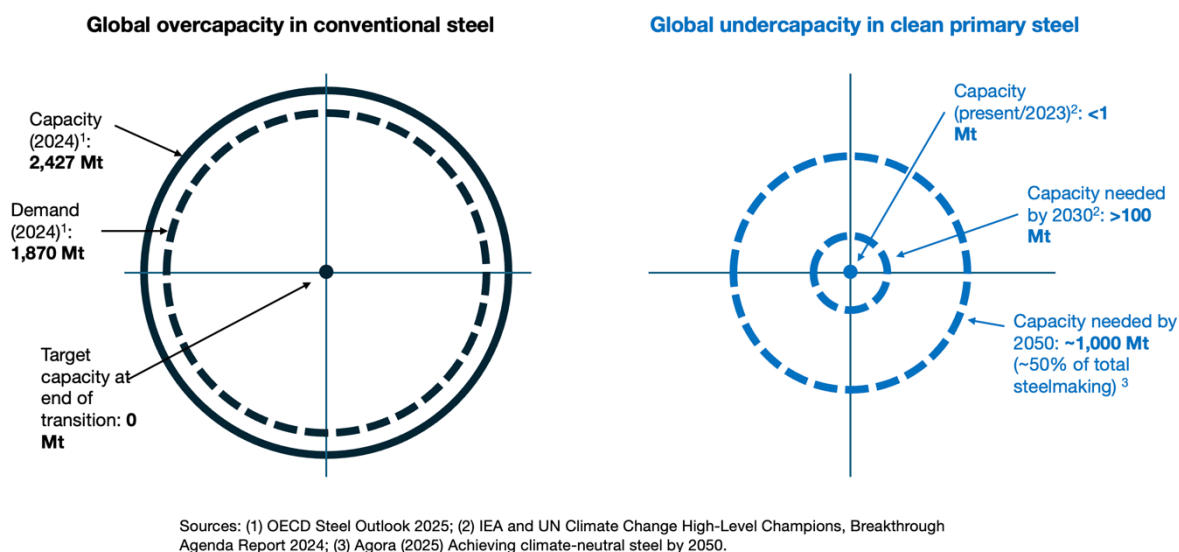


Figure 1: The twin challenges of global overcapacity in conventional steel, and undercapacity in clean primary steel.

No country's interests are well served by this situation, with conventional steel production struggling to be profitable and clean steel investment struggling to be viable.

Europe's steel industry in particular has been doubly exposed. Its conventional steel industry has suffered from the depressed prices caused by global overcapacity, as well as its own rising input costs. EU steel output has fallen by a fifth since 2013, while imports have doubled as a share of consumption, from 15% to 30%. At the same time, the EU's policy environment has not sufficiently mitigated risks for first movers seeking to produce primary near-zero emission steel. Carbon pricing has increased the costs of conventional steel production domestically and for export, but not at the level required to give clean primary steel production an advantage. The low level of carbon pricing beyond the EU's borders also means that clean steel is not competitive in its export markets (see Figure 2). In this context, European industry has held back from investing in clean primary steel, and in the past year some of the leading projects have been cancelled or postponed.

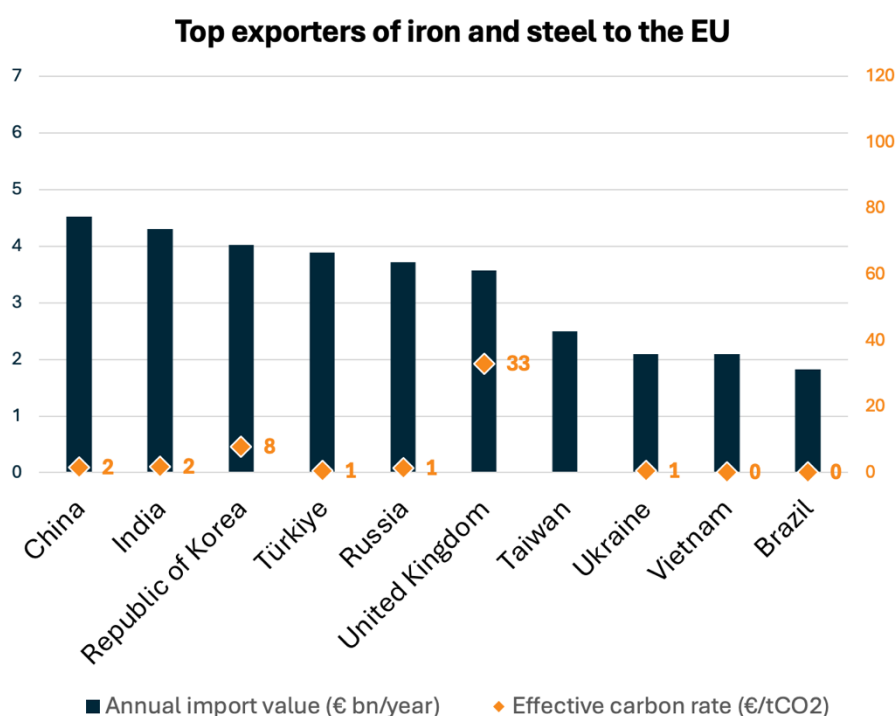
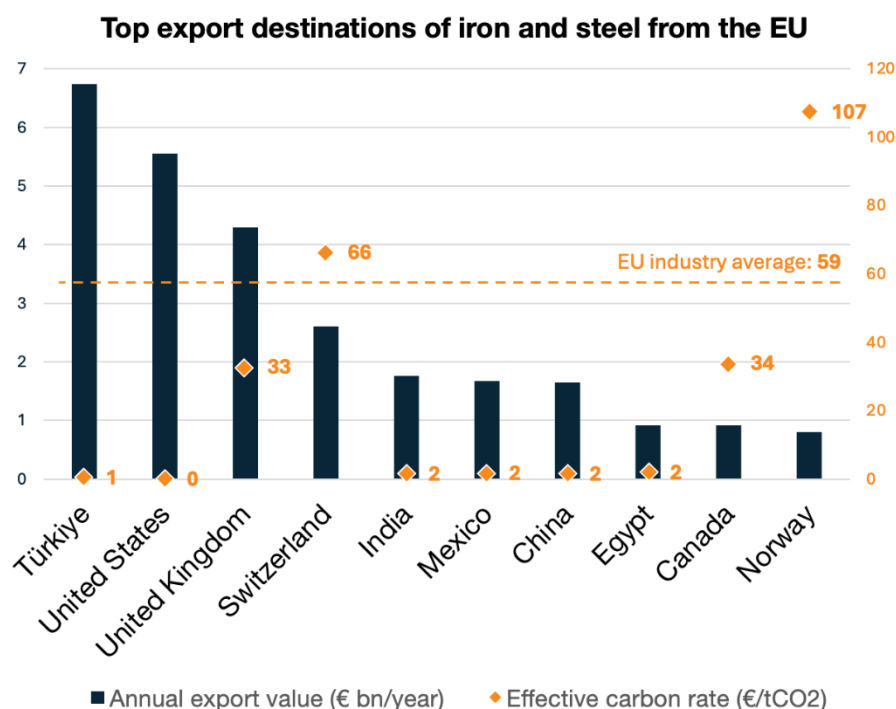


Figure 2: Volumes of steel traded between the EU and its top import source and export destination countries, and carbon prices currently imposed on industry in those countries.⁶

⁶ Sources: (1) Eurostat (2026). Dataset DS-045409: International trade in goods, accessed 27 April 2026. (2) OECD (2026). Carbon Pricing and Energy Taxation database. Carbon prices shown are effective in industry sectors. (3) LeadIT (2026). Green Steel Tracker.

The EU's new move: halving quotas, doubling tariffs

On 1 July this year, the EU replaced its steel safeguards, which had been extended for as long as allowable under WTO rules, with a new set of quotas and tariffs.⁷ The new quotas aim to reduce tariff-free steel imports by 47%, returning imports roughly to their level in 2013, a benchmark year for pre-overcapacity trade. At the same time, the out-of-quota tariff rate has been doubled from 25% to 50%. These measures will dramatically reduce the European steel industry's exposure to global overcapacity.⁸

Two criteria are particularly important in setting quotas under the steel regulation:

- Past trade: All countries whose share of EU imports for a particular steel product was at least 5% in the 2022–2024 reference period are granted a country-specific quota. Other partners will be able to export duty-free under the remaining residual quota.
- Free trade agreement partners: Half of the EU's annual 18.3 million tonnes quota of tariff-free imports is reserved for FTA partners. Of this, the majority will be allocated to specific FTA partners in proportion to their historic trading volumes, with a smaller part to all FTA partners on a first-come, first-served basis.

In practice, this means that FTA partners that meet the 5% threshold of EU import volumes between 2022–2024 for a specific product are granted a country-specific quota. Once this is exhausted, they have access to the remaining quotas on a first-come, first-served basis. Where countries have access to the 'residual quota' (because they do not meet the 5% threshold to qualify for a country quota), this access will be on an most favoured nation (MFN) basis (competing with non-FTA partners), with the remaining quota volumes accessible for FTA partners only.⁹

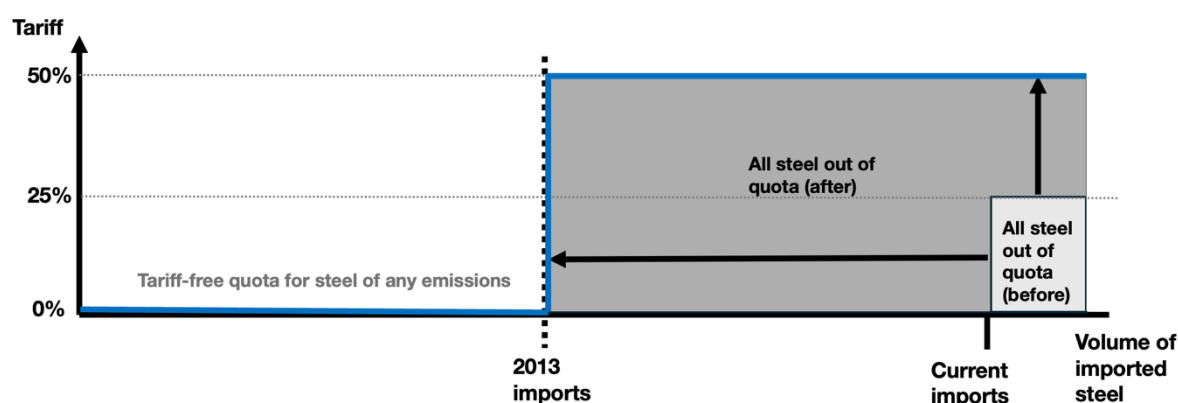


Figure 3: The effect of the EU's new Steel Regulation introduced on 1 July 2026.

⁷ European Commission (2026a). [New rules to protect EU steel industry from damaging impacts of global overcapacity enter into application](#). Press release IP/26/1484.

⁸ This new protection may come at the expense of the competitiveness of downstream industries, which are likely to face higher costs of steel as an input.

⁹ European Commission (2026b). [Factsheet: EU steel measure](#). DG Trade.

The Article XXVIII process and countries' reactions

How the EU's trade partners will respond to this move remains to be seen. Under WTO rules, the EU is obliged to enter into negotiations with countries that have a substantial interest in selling steel to the European market, with the aim of agreeing adequate compensation for the reduction in their market access. Based on recent trade data, those countries and jurisdictions could include Algeria, Brazil, China, Egypt, India, Indonesia, Japan, the Republic of Korea, Malaysia, Serbia, Switzerland, Taiwan, Türkiye, Ukraine, the UK, the USA, and Vietnam. Those countries could seek compensatory concessions in any area of trade. If negotiations fail, they are entitled to impose retaliatory measures. The European Commission reports that 'The EU has addressed the concerns of its trading partners through constructive discussions at the WTO (Article XXVIII GATT negotiations), with a significant number of partners provisionally agreeing to their allocated quotas as a result'.¹⁰

To date, the reactions from countries have been mixed:

- In South Korea, the Korean Iron and Steel Association welcome the favourable quotas relative to other countries¹¹, while the Industry Minister noted "broad agreement" had been reached.¹²
- In Japan, five industry associations described the steel quotas as "inappropriate and regrettable" and requested the Japanese Government consider using dispute settlement measures under the WTO and through its Economics Partnership Agreement.¹³
- In India, the Engineering Exports Promotion Council described the allocations as a "mixed bag" noting that India has secured better access in some product categories, but predicting that exports of the products where there were not higher quotas would fall by 40%.¹⁴
- In Brazil, The Ministry of Foreign Affairs and the Ministry of Development, Industry, Trade and Services criticised the restrictions, arguing that the EU acted without proper negotiation with Mercosur members under Article XXVIII. The government warned that such restrictions could trigger an escalation of retaliatory trade defence measures. The Brazilian Steel Institute also said negotiations were still ongoing because the EU proposal was "unsatisfactory" and needed adjustments by product category.¹⁵

¹⁰ European Commission (2026a).

¹¹ Decena, K.B. (2026). ['Malaysia, Japan, Korea steel groups split on EU's new import quotas'](#). *S&P Global Commodity Insights*.

¹² Jo, H.-R. (2026). ['Korea secures softer EU steel quota cut, minister says'](#). *The Korea Herald*.

¹³ Nagase, F. (2026). ['Japan steel groups slam new EU safeguard measure'](#). *Argus Media*.

¹⁴ KNN India (2026). ['New EU steel quotas may cut India's exports by 40%: EEPC India'](#). *KNN India*.

¹⁵ GMK Center (2026a). ['The cost of protection: global reactions to the EU's new steel TRQs'](#). *GMK Center*.

- In the UK, Tata Steel UK and UK Steel expressed concerns over reduced access to the EU market.¹⁶ The Government has introduced its own parallel steel trade defence measures, similar to the EU's. The status of the Article XXVIII negotiations is unclear.
- In Türkiye, the chair of the Turkish Steel Exporters Association said the country's steelmakers could lose around \$3bn in annual export revenue and emphasised the need to expand in alternative markets.¹⁷ The pressure from TRQs is already evident with quotas for hot-rolled coil oversubscribed by 43% on the first day of the regulation.¹⁸

With high tariffs now in place in the EU as well as the USA, reducing access to the world's two largest developed country steel markets, other countries are likely to experience the pressure of global overcapacity even more intensely as low-cost exporters look for new markets. Further tariff increases could follow.

Meanwhile, the undercapacity challenge remains to be solved. Global market conditions are not favourable to exporters of clean primary steel from the EU or anywhere else, and global investment in clean primary steel is far off-track compared to climate change goals. Reaching full decarbonization nationally (or within the EU) achieves nothing to reduce climate risk unless it influences, or is matched by, similar progress globally.

The opportunity for steel transition partnerships

Steel transition partnerships based on reciprocal measures giving favourable market access to clean steel could serve three objectives, from the point of view of the EU:

- I. Establishing a level playing field for clean steel in global markets. In the near term, this could include the creation of opportunities for the first European producers of clean primary steel to export competitively. In the longer term, it means a shift towards clean steel being the price-setter in global markets.
- II. Diversification of the EU's steel trade, lessening dependence on the USA as an export market and on China as a source of imports.
- III. Reducing climate risks to the EU (and the world) by accelerating the global steel transition.

For partner countries, which may be interested in the steel transition for a range of reasons – such as taking advantage of favourable natural resources to build competitive advantage in clean iron or steel production, increasing energy security by reducing reliance on imported coal, reducing industrial air pollution and its damage to public health, or achieving

¹⁶ SteelOrbis (2026). ['EU steelmakers welcome new quota system. UK industry warns of market access challenges'](#). *SteelOrbis*.

¹⁷ GMK Center (2026b). ['New EU quotas could result in losses of \\$3 billion for Turkey's steel exports'](#). *GMK Center*.

¹⁸ GMK Center (2026a).

climate policy objectives – a partnership of this kind with the EU could amplify the effectiveness of domestic policies.

The EU could offer dedicated clean steel tariff-free quotas under the structure of the new tariff-rate quota system. Basing these quotas on an appropriately stringent, near-zero emission standard would ensure that they incentivised investment in clean primary steel production, and did not simply grant additional market access to efficient coal- or gas-based steel. This represents an important difference compared to the EU’s carbon border adjustment mechanism (CBAM). The CBAM confers an advantage on any exporter of steel to the EU that produces with marginally lower emissions intensity than European blast furnaces. The clean steel tariff-free quotas would be more targeted, only conferring an advantage on plants using near-zero emission technologies – none of which are yet operating globally.

The clean steel quotas would be additional to the (reduced) tariff-free quotas implemented since 1 July 2026, as illustrated in Figure 4. Their volume would be subject to negotiation, and would depend on the measures offered by partner countries in return. The EU could initially offer clean steel quotas equal to the difference between a country’s new (reduced) quota allocation under the 1 July arrangements, and its previous allocation under the most recent EU steel safeguards. Partner countries that fall into the ‘rest-of-the-world’ category (not having their own quotas) could be offered duty-free-quota-free market access for clean steel, or alternatively a clean steel quota based on their steel exports to the EU over the years 2022–2024.

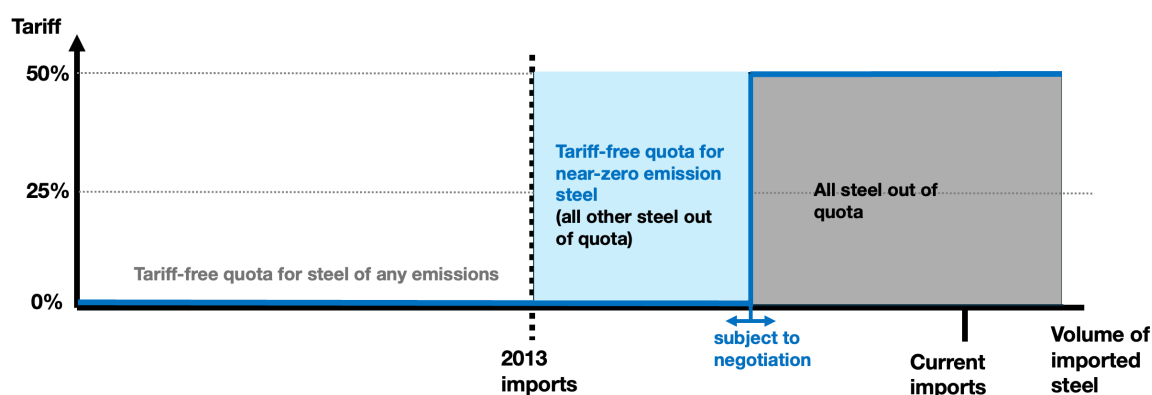


Figure 4: A dedicated tariff-free quota for clean steel within the EU’s new tariff-rate quota system.

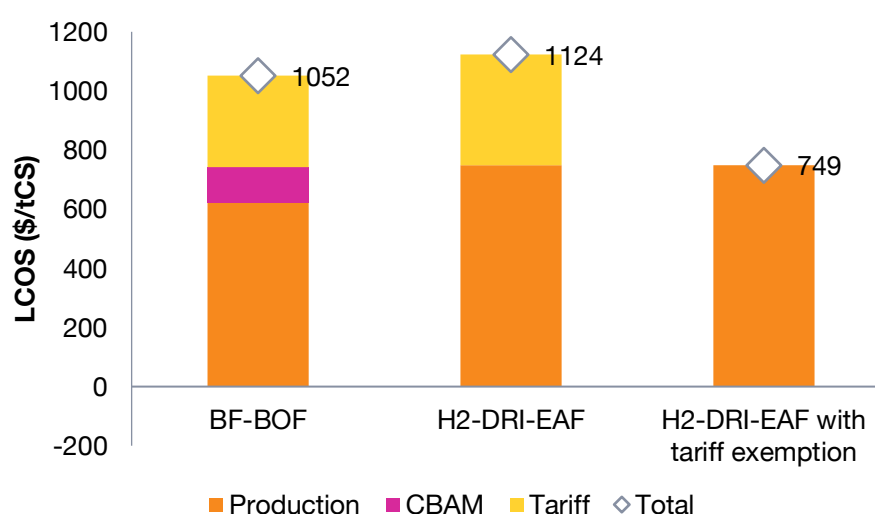
The EU could legally offer clean steel tariff-free quotas to any (or all) of its free trade agreement (FTA) partners. In practice, this negotiation would need to take place *after* the negotiation of concessions and compensation to balance the measures reducing market access introduced on 1 July 2026.

Priority countries for early agreements could be those with the most potential to contribute to establishing a level playing field for trade in clean steel in global markets and those of interest to the EU for reasons of clean steel export competitiveness, steel trade diversification, supply chain integration and climate policy cooperation. These could include

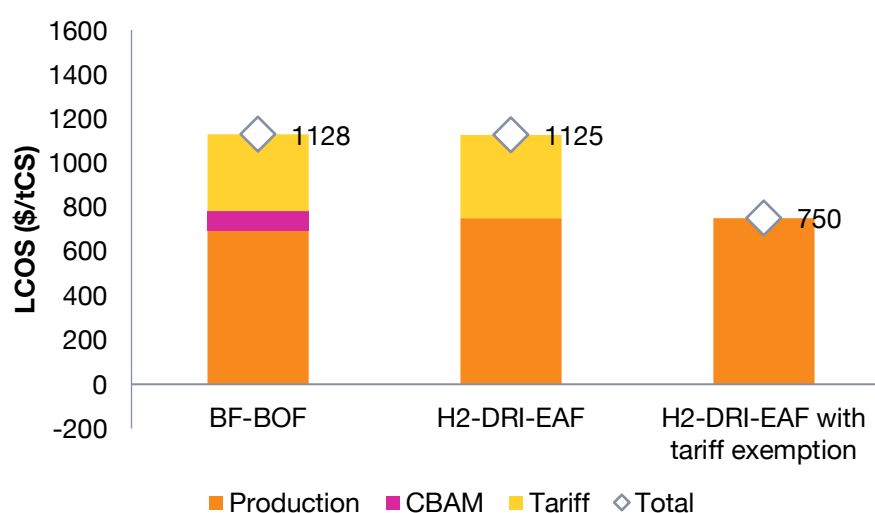
countries that are large steel producers (India, Japan, Korea), significant potential green iron producers (Brazil, South Africa), and top EU export destinations (Türkiye, UK).

The EU's new out-of-quota tariffs are so high, at 50%, that an exemption to them would be more than enough to offset the cost difference between imported clean and conventional primary steel. In principle, this means that within the dedicated quota, imported clean steel could be lower cost than (out-of-quota) conventional steel, an effect not likely to be achieved by the CBAM within the next five years (see Figure 5). In practice, investment in the first wave of clean primary steel plants anywhere in the world is unlikely to take place without government subsidies.¹⁹ If such support already enables clean steel production to be cost-competitive, then the effect of the dedicated quotas would be to give clean steel a volume advantage in market access compared to conventional steel.

Out of quota EU imports from India



Out of quota EU imports from Brazil



¹⁹ Evidence to support this includes industry surveys, simulation modelling, the current pipeline of clean primary steel projects, and experience of the low carbon transitions in the power and road transport sectors. See Morrisroe, J. et al, 2025 for discussion.

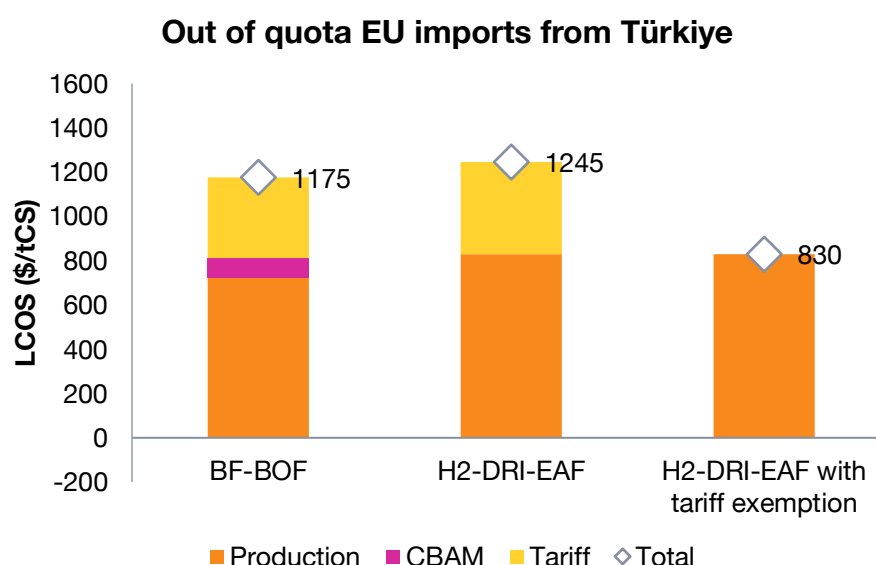


Figure 5: Contrasting effects of the CBAM and tariff-free access on the relative costs of clean and conventional steel imported into the EU.

In return for the allocation of clean steel tariff-free quotas, the EU could seek reciprocal measures from partner countries that would give greater market access to its own clean steel exports and contribute to establishing a level playing field for clean steel in global markets. These measures could include:

- Tariff-free quotas or tariff reductions for EU clean primary steel exports, based on an agreed standard. Most steel exported from the EU currently has tariff-free access to most markets, but this is not universally the case. In Brazil, tariffs on EU steel range from 8–14% across most product categories; in India, they range up to 22%. The gradual reduction and elimination of the Brazilian steel tariffs in the EU-Mercosur Free Trade Agreement is to be staged over 10 years after entry into force.²⁰ While final details of the EU-India FTA have yet to be published, press releases have indicated that the staging will be from 5-10 years, depending on product category.²¹ If clean primary steel investment in the EU is enabled by subsidy policies (such as Germany's carbon contracts for difference) then even small tariff reductions could give these plants an advantage over conventional exporters. Moreover, as noted above, it is possible that some of the EU's trading partners will respond to the new EU measures by raising their own tariffs on European steel. If so, the potential for tariff reductions targeted at EU clean steel exports will be increased.
- Commitments on carbon pricing, appropriate to national circumstances. A carbon price floor in a partner country would contribute to increasing the export competitiveness of European clean steel, as well as to reducing the competitive disadvantage faced by European conventional steel exporters due to carbon pricing

²⁰ European Commission (2024). [EU-Mercosur Agreement: text of the agreement](#). DG Trade.

²¹ European Commission (2026c). [Factsheet: EU-India Free Trade Agreement – main benefits](#). DG Trade.

in the EU. It could also influence investment decisions in the partner country away from the most emissions-intensive forms of production, contributing to levelling the playing field through convergence towards clean steel over the longer term.

- Removal of non-tariff barriers to trade in clean iron and steel, where these are a concern for European exporters.

In the context of the EU having recently halved tariff-free access to its market through its new steel regulation, the EU's offer would need to be materially attractive to its partner countries, and its asks in return could not be excessive. Partner countries may have additional asks of the EU that could logically fit with the objectives of the partnerships, such as commitments to concessional financing and facilitation of offtake agreements to enable investment in green iron production, the sharing of revenues arising from the EU CBAM²², or a reciprocal ban on scrap steel export restrictions.

Reciprocal concessions on market access could be supplemented by other measures relevant to enabling investment in clean steel production, in which both the EU and its partner countries might have a shared interest. Such measures could include:

- Agreements on common definitions of near-zero emission and low-emission iron and steel, and/or interoperability of standards.
- Common principles or rules on emissions monitoring, reporting and verification, with a view to achieving harmonization or interoperability of approaches.
- Agreed acceptability criteria and transparency rules for clean steel subsidies, which could be extended to an agreement not to impose countervailing duties where subsidies meet these criteria.
- Mutual openness of access to targeted public procurement of clean steel.

Some of the institutional foundations for partnerships of this kind have already been laid, such as the EU's Global Gateway strategy, which aims to support sustainable investment in the EU's partner countries²³, the Clean Trade and Investment Partnership between the EU and South Africa, and the EU's €500m financial commitment to support India's sustainable industrial transformation as part of the broader package agreed around the EU-India FTA. Agreements on clean steel tariff reduction and associated measures could provide the necessary substance to put the strategic intent of these initiatives into practice.

²² One possible form of agreement on this is 'dual carbon pricing', in which the EU would recognise for CBAM purposes a partner country's export-only carbon tax – in effect, allowing that country to keep the revenues from this tax and reducing the CBAM revenues by an equivalent amount – in exchange for the partner country implementing a carbon floor price on domestic production, which may be set at a different level to the export-only carbon tax. See: Elkerbout, M., Nehrkorn, K., and Kleimann, D., (2025), [For climate-and-trade policies, the principle of 'common but differentiated responsibilities' cuts both ways](#). Section 4.5.

²³ European Commission (n.d.). [Global Gateway](#).

Potential for a plurilateral agreement

A more difficult but higher impact option than bilateral partnerships would be a plurilateral agreement on clean steel tariff reduction. This could be explored in parallel to bilateral partnerships, or developed in a second stage of cooperation.

An initial step could be to build a plurilateral agreement on top of a network of bilateral agreements between the EU and its FTA partners. Tariff-free market access for clean steel could be granted between any pair of FTA partners in this network, while other forms of cooperation on the iron and steel transition could be included within a broader framework agreement.

A further step, with greater difficulty but also greater impact, would be a plurilateral agreement on an MFN basis. This could be agreed by a limited group of countries, but the concessions would be made available to all countries.²⁴

As with the bilateral option, a small tariff reduction in any plurilateral agreement could be enough to give clean steel an advantage over conventional steel in international trade, when combined with national deployment policies. An agreement among a small number of major steel producing countries could create a large market in which clean steel exports receive preferential treatment, changing the incentives for investment across the steel sector globally.

As with some previous sector-focused plurilateral trade agreements (examples of which include the Information Technology Agreement, the Agreement on Trade in Civil Aircraft, and the Pharmaceutical Agreement), the agreement could be designed to enter into force only when supported by participants representing a critical mass of the global market.

Given that China represents over half of global steel production, a plurilateral steel agreement on an MFN basis would almost certainly need to include China as an active participant (one of the group of countries offering tariff-free market access for clean steel) rather than as a passive beneficiary. China, India and the EU together account for over two thirds of global steel production, and would be the most important participants.²⁵ Reaching an agreement among these three would evidently pose significant political challenges, given existing trade and geopolitical tensions, not least the concerns over perceived unfairness in Chinese subsidies for conventional steel that have contributed to global overcapacity, and for clean technologies in other sectors. The EU has a desire to diversify trade relationships and supply chains for reasons of security and resilience. For their part, China and India have concerns about unilateralism in the EU's trade-related climate policies, particularly around the CBAM, and are likely to have concerns around the EU's new steel tariffs.

²⁴ This would accord with the Most Favoured Nation principle. Different treatment of near-zero emission steel and conventional steel could be justified under Article 20 of the GATT. See Morrisroe, J. et al. (2025) for discussion.

²⁵ In 2024, China, India and the EU together accounted for 68% of global crude steel production. Source: World Steel Association (2025). *World Steel in Figures 2025*.

From a European perspective, a plurilateral agreement could be worth considering despite these difficulties because of the risks of alternative scenarios. If deployment of near-zero emission industrial process technologies in China, India and the rest of the world remains minimal, while high-emitting capacity expands in growth regions, then Europe's own hard-fought industrial decarbonization achieves nothing for its climate goals. If markets for clean steel outside Europe are limited to small countries and private sector niches, Europe's steel industry is likely to remain exposed to first-mover risks. For China and India, the perceived risks of an agreement are likely to be lower given their relatively small import shares of steel consumption – around 1% and 8% respectively, compared to the EU's ~33%²⁶ – and the opportunity is for global market conditions that amplify the effect of domestic policies focused on objectives including air quality improvement, energy security, and carbon neutrality.

To limit perceived or actual competitiveness risks, several options are available: the agreement could specify only a small tariff reduction; it could include a sunset clause after a specified time (e.g. 10 years) or when near-zero emission steel reaches a specified share of the global market (e.g. 10%); or it could be limited by quota. Any of these options would be consistent with the goal of incentivising near-term investment in the first wave of near-zero emission primary steel plants.

A plurilateral agreement on clean steel tariff reductions could also encompass commitments on reducing capacity in conventional steel production by countries with exceptionally large steel fleets and falling domestic demand, addressing global overcapacity in conventional steel at the same time as undercapacity in clean primary steel (an 'over-under-capacity agreement'). In China, for example, although the government rejects the idea that it is responsible for global overcapacity, a commitment of this kind would be consistent with recent domestic policies requiring 1.5 tonnes of existing steel production capacity to be retired before permission can be granted for 1 tonne of new production capacity.²⁷

Participants in a clean steel tariff reduction agreement would need to agree on the standards used as the basis for the tariff reduction, the means of verifying emissions and of tracking steel products from origin to import destination, and the extent and duration of the tariff reductions. There would also likely need to be an agreed dependence on compliance with subsidy acceptability criteria. Differences across countries in transparency on subsidy provision and existing diplomatic disagreements on the levels of subsidy currently being provided in the sector could make this a difficult element to agree. However, the very limited amount of primary near-zero emission steel currently being produced could provide an opportunity to set rules early, before perceived unfair practices begin, avoiding challenges witnessed in other sectors.

²⁶ World Steel (2025). [World Steel in Figures 2025](#).

²⁷ Shen, X. (2026). ['Can China's new steel capacity rules accelerate its green transition?'](#). *Dialogue Earth*.

A backstop option for the EU: restricting market access for the most emissions-intensive steel

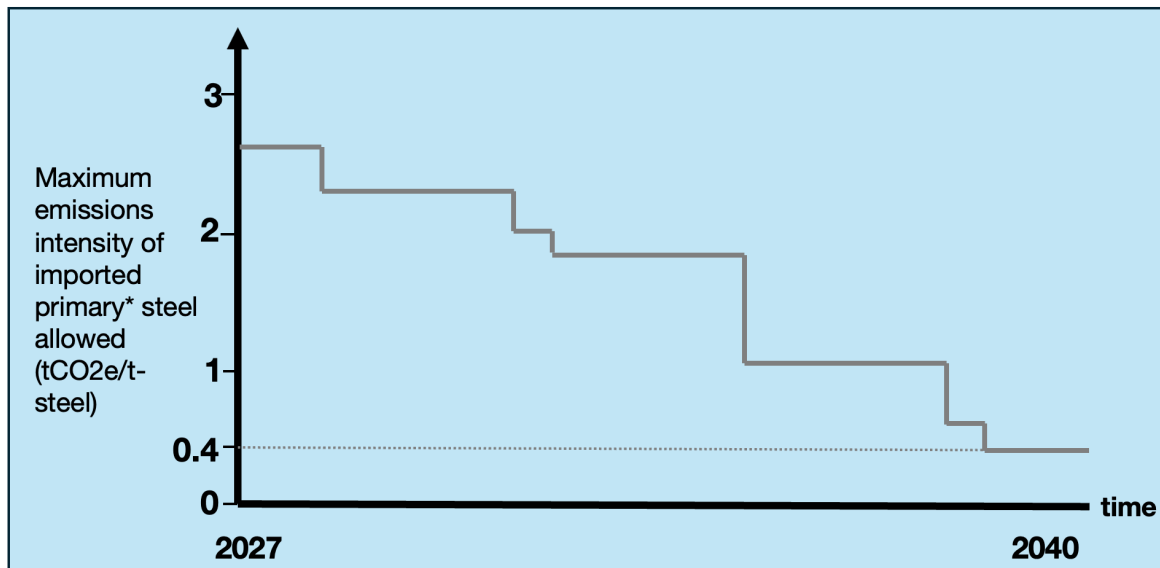
If reciprocal arrangements to give preferential market access to clean steel prove too difficult to agree, the EU could consider other ways to exert leverage over the global market.

Under present policies, the EU emissions trading system (ETS) reduces the quantity of emissions allowed to European industry through its finite supply of permits. When the emissions cap reaches zero (in 2039 under current legislation, or in the 2040s as implied by the European Commission's recent proposals²⁸ and the 2050 net zero target), the steel industry is expected to be fully decarbonised. The CBAM, in contrast, adds to the cost of conventional steel imports but does not limit their quantity. This leaves open the possibility of low-cost, high-emission steel continuing to enter the EU during the transition period, and even after the European steel industry has been fully decarbonised. (The carbon price in the ETS and CBAM will at that point depend entirely on the situation in other sectors, and potentially on negative emissions activities, making it difficult to predict.) This expectation could be influencing investment decisions at present, in countries that export steel to the EU – including in India, where 60% of the global BF-BOF capacity under development is located.²⁹

The EU could remove this possibility in the long-term by replacing carbon pricing at the end of the steel transition with a regulation requiring all steel produced or imported to be near-zero emission. In the near- and medium-term, the EU could increase its leverage over global markets by introducing such a regulation in a progressive way, gradually restricting access to the EU market for the most emissions-intensive steel. This could be achieved through the gradual conversion of the product-specific tariff-free quotas established by the 1 July Steel Regulation into clean-steel-only tariff-free quotas. In each product category, the maximum emissions intensity eligible for tariff-free access could be set at the level of the worst-performing EU steel installation. This level would be reduced with each closure or upgrading of the EU's worst-performing facilities. This is conceptually illustrated by Figure 6.

²⁸ European Commission (2026): [Proposal for a directive of the European Parliament and of the Council amending Directive 2003/87/EC and Decision \(EU\) 2015/1814 as regards driving competitiveness and cost-effective decarbonization](#).

²⁹ Global Energy Monitor (2026). [Global steel industry doubles down on coal, as new capacity outpaces retirements](#).



*Illustration assumes use of sliding scale with level 4 representing near-zero emission standard

Figure 6: A backstop regulation to progressively exclude the highest-emitting steel from the European market.

This approach would send a strong signal to the steel industry globally, indicating that steel from the highest emitting plants will soon lose access to the European market, and that within two decades, only near-zero emission steel will retain access to the world's largest developed country steel market. This would be strongly analogous to the EU's vehicle regulations, which set a limit on carbon intensity that falls to zero by 2035, applying equally to domestically produced and imported cars. It would fully exercise the EU's market power to encourage a global shift towards clean steel technologies, improving the prospects for clean steel eventually benefiting from a level playing field in global markets.

For compliance with World Trade Organization law, an equivalent regulation would need to be put in place domestically. This would create no new obligations for European steelmakers, but would simply serve as a backstop, preventing investment in new facilities that were more emissions intensive than the worst-performing of those already operating.