THE GAZETTE

STRATEGIC BRIEFING

THE CBAM FALLOUT

Mapping the Cross-Sector Friction in Europe's Industrial Value Chain

An Executive Analysis of Input Cost Paradoxes, Downstream Vulnerabilities, and the New Architecture of European Industrial Security

FOUR INDUSTRY PERSPECTIVES
EUROFER | EUROMETAL | FEM | T&D EUROPE

STRATEGIC ANALYSIS
The Gazette Desk

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01 / THE PRIMARY VS. DOWNSTREAM SQUEEZE

Europe's Steel Protection Paradox: Safeguarding Production While Exposing Its Customers

THE CENTRAL QUESTION: Can Europe protect its primary industrial production without simultaneously weakening the manufacturing industries that depend on it?

The European Union's Carbon Border Adjustment Mechanism was designed to address a fundamental weakness in the European climate framework: the risk that carbon-intensive production would migrate outside the Union, while European manufacturers continued to face the costs associated with the EU Emissions Trading System. However, as CBAM enters its definitive phase, a more complex question is emerging. Can Europe protect its primary industrial production without simultaneously weakening the manufacturing industries that depend on it?

The perspectives expressed by EUROFER and EUROMETAL reveal a structural tension that is increasingly difficult to ignore. Although both organisations approach the issue from different positions within the steel value chain, their assessments point towards the same underlying economic reality: European steel production cannot remain competitive independently of the industrial customers purchasing, processing and transforming its output.

Axel Eggert, Director-General of EUROFER, identifies the conditions required to sustain European steelmaking through the transition. More than 60 major low-carbon steel projects are planned or underway, representing substantial industrial investment ambitions. Yet their viability depends on a combination of internationally competitive electricity and hydrogen prices, adequate infrastructure, effective carbon leakage protection and sufficient demand for low-carbon products. The transition is not simply a question of replacing production technologies. It requires an entire economic ecosystem capable of supporting the investment case.

Alexander Julius, President of EUROMETAL, introduces the other side of this equation. His assessment of the steel derivatives market highlights the vulnerability of European manufacturers competing against imported components and finished products that may not face equivalent carbon-related obligations.

The protection paradox

Under the current framework, CBAM covers selected basic materials, including iron and steel, while the treatment of a wider range of steel-intensive downstream products is subject to legislative expansion. This distinction creates a potential competitive asymmetry: European manufacturers purchasing carbon-cost-exposed steel may compete against imported finished products manufactured in jurisdictions where comparable carbon costs are not embedded in the production process.

The consequences extend well beyond the steel sector itself. If a European manufacturer finds that importing a finished component is more commercially attractive than manufacturing it domestically using European steel, the impact is not limited to one lost manufacturing contract. It potentially reduces demand for European steel, weakens distribution networks, affects processing facilities and undermines the investment conditions required by primary producers.

A value-chain contradiction

> “If Europe loses the industries that consume and transform its steel, it undermines the economic foundations of its own steel production.”

Julius expresses the underlying contradiction directly. This statement is particularly significant when considered alongside EUROFER's argument that Europe needs a complete investment framework to ensure that low-carbon steel is produced, rather than merely consumed, within the Single Market.

The two positions are not contradictory. They are interdependent. EUROFER's objective of protecting European steelmaking capacity cannot be separated from EUROMETAL's demand for a viable downstream manufacturing base. Protection at the beginning of the value chain becomes economically fragile if the subsequent stages of production are exposed to competitive displacement.

The legislative debate over downstream CBAM coverage therefore concerns more than the technical expansion of a product list. It raises a fundamental question about where Europe wants industrial production, investment and employment to take place. The challenge for policymakers is to prevent a situation in which carbon leakage is addressed at the level of primary materials, only for competitive pressure to reappear further down the manufacturing chain.

THE STRATEGIC TAKEAWAY

Europe cannot build a resilient steel industry by protecting only the first stage of production. The economic value of European steel depends on the continued competitiveness of the manufacturers, processors and industrial customers that transform it into finished products.

CROSS-SECTOR CORRELATION / EUROFER + EUROMETAL

A Shared Agenda, Different Exposure Points

THE ANALYTICAL DISTINCTION: EUROFER and EUROMETAL are not advancing opposing CBAM positions. They converge on the need to protect the full European steel value chain, while highlighting different vulnerabilities within it.

Reading the two interviews as a disagreement between steel producers and steel distributors would misrepresent the evidence. Their institutional roles differ, but their central diagnosis is closely aligned: carbon leakage does not stop at the border of the primary material market. If imported components and finished products escape equivalent carbon constraints, pressure can migrate downstream, weakening the manufacturing base on which European steel production itself depends.

The alignment is documented, not inferred

The convergence is visible in joint advocacy. In July 2025, EUROFER and EUROMETAL jointly called for stronger trade measures for steel derivatives and warned that the value chain must be protected beyond primary steel. Their joint statement explicitly recognised the risk that carbon leakage in CBAM-covered goods could extend further downstream. In May 2026, both organisations also joined a wider cross-industry call for an effective extension of CBAM to relevant steel- and aluminium-intensive downstream sectors. In October 2026, EUROFER and EUROMETAL were again among the signatories urging the broadest possible downstream extension.

Two perspectives on the same industrial system

EUROFER: protect the investment case for European steelmaking. Axel Eggert focuses on the conditions that make low-carbon steel production economically viable: competitive electricity and hydrogen, energy and CO2 infrastructure, effective carbon-leakage protection, and sufficient lead markets for low-carbon steel and steel-intensive products. His central concern is that Europe must create the conditions for low-carbon steel to be produced in Europe, not merely consumed there.

EUROMETAL: protect the industrial customer base and the downstream chain. Alexander Julius focuses on distributors, processors and manufacturers exposed to imported components and finished goods that may not face equivalent obligations. His interview adds the operational dimension: emissions data, verification, customs consistency, contract lead times, working capital and regulatory predictability. The point is not simply that downstream firms need protection; they need rules they can implement without diverting resources from investment and decarbonisation.

A separate policy question: EU exporters

One issue not developed in Julius's interview is the position of EU downstream manufacturers selling into third-country markets. Extending CBAM to imports can address carbon-cost asymmetries inside the Single Market, but it does not, by itself, settle the treatment of EU exports where competing producers may not face comparable carbon costs. This is The Gazette Desk's analysis, not a position attributed to Julius.

What this changes in the analysis

The central tension should therefore not be framed as *primary steel versus downstream industry*. It is the risk that fragmented policy protects one stage while leaving another exposed. EUROFER's investment case and EUROMETAL's downstream warning are mutually reinforcing: a European steel industry cannot sustain low-carbon investment without a viable customer base, while downstream manufacturers cannot remain competitive if material costs, carbon obligations and imported finished goods are treated asymmetrically.

02 / REGULATORY FRICTION & THE INFRASTRUCTURE PARADOX

Europe Wants to Electrify Its Economy. But Can Its Industrial Base Afford the Transition?

THE CENTRAL QUESTION: What happens when carbon costs, compliance obligations and trade measures converge on the same industrial manufacturers?

The debate surrounding CBAM is often concentrated on the immediate cost of carbon-intensive imports. Yet the interviews conducted with FEM and T&D Europe reveal a broader problem: European manufacturers are simultaneously facing rising input costs, regulatory complexity, trade-related pressures and unprecedented expectations regarding the delivery of the continent's energy transition.

These pressures are not isolated. They intersect at the level of industrial investment.

Ernesto Domínguez, President of FEM, highlights how manufacturers of materials handling, lifting and intralogistics equipment depend heavily on steel and aluminium sourced through complex European and international supply chains. These materials are essential inputs for equipment used across manufacturing, warehousing, logistics and port operations.

His assessment of CBAM identifies a particularly important issue: the cumulative administrative and financial burden imposed on manufacturers, especially SMEs. As Domínguez explains, increasing input costs and complex reporting obligations can divert operational and financial resources away from innovation and decarbonisation, with a particularly significant impact on SMEs.

How regulatory pressure travels

This observation becomes more consequential when placed alongside the concerns raised by Alexander Julius at EUROMETAL. EUROMETAL represents a segment of the value chain that must translate regulatory requirements into commercial decisions involving procurement, stock management, processing, financing and long-term customer contracts. Julius warns that companies cannot reasonably be expected to reorganise supplier data systems, secure emissions verification and renegotiate commercial arrangements within extremely short implementation periods.

The intersection between these two perspectives reveals a transmission mechanism that deserves greater attention. Regulatory uncertainty does not remain confined to the importer responsible for CBAM compliance. It can travel through procurement contracts, supplier relationships, working-capital requirements and manufacturing investment decisions.

For a steel distributor, uncertainty can affect financing and inventory planning. For an equipment manufacturer, higher input costs and additional reporting requirements can reduce the resources available for engineering, automation and research and development. The issue is therefore not simply whether a company can technically comply with CBAM. It is whether it can absorb the cumulative cost of compliance while continuing to invest and compete.

The infrastructure paradox

However, the infrastructure dimension makes this problem even more significant. Diederik Peereboom, Secretary General of T&D Europe, brings the discussion into the strategic infrastructure sector. His assessment highlights the growing demand for electricity transmission and distribution technologies as Europe accelerates electrification.

T&D Europe reports that its 12 corporate members alone publicly announced EUR 12 billion in investments over the previous two years to expand manufacturing capacity globally. Yet the companies producing transformers, grid equipment and other critical technologies face their own supply-chain vulnerabilities.

One particularly revealing example concerns the Commission's provisional safeguard measures on imports of grain-oriented electrical steel (GOES), a specialised material used in transformer manufacturing. Peereboom argues that these measures increase input costs for European grid equipment manufacturers while creating additional revenue opportunities for Asian steel producers. He also warns that the resulting cost pressure can weaken the competitive position of European manufacturers both within the Single Market and in export markets.

This is not a CBAM measure. It is a separate trade safeguard instrument. Nevertheless, its consequences intersect with the same broader industrial cost problem identified by FEM and EUROMETAL.

Here lies the infrastructure paradox. Europe wants to accelerate electrification, expand its transmission networks and strengthen its energy independence. Achieving these objectives requires more transformers, more grid equipment, more advanced manufacturing capacity and substantial industrial investment. But the manufacturers expected to deliver this infrastructure depend on internationally competitive access to specialised materials, predictable regulatory conditions and commercially viable production costs.

Peereboom's argument is particularly relevant here: the expansion of electricity networks requires a coordinated value-chain approach, from political ambitions and network operators to manufacturers and future infrastructure users. His position also reinforces Eggert's argument from EUROFER. Competitive energy prices and reliable infrastructure are essential not only for steelmakers transitioning to low-carbon production, but also for the downstream manufacturers that must turn those materials into the equipment required by Europe's energy transition.

The connection is clear: steel competitiveness, manufacturing investment and grid expansion are not separate policy questions. They are different stages of the same industrial system.

THE STRATEGIC TAKEAWAY

Europe risks creating a policy environment in which the costs of industrial transition accumulate faster than the productive capacity required to deliver it. The combined effects of regulation, trade measures and input costs must be assessed against the investment capacity of the industries delivering Europe's electrification and infrastructure expansion.

03 / THE SECURITY DEBATE & ACTIONABLE INTELLIGENCE

Beyond the Carbon Border: Why Europe's Industrial Competitiveness Has Become a Security Issue

THE CENTRAL QUESTION: Can Europe pursue climate ambition, trade protection and strategic autonomy without fragmenting the industrial system that supports all three?

The cross-sector evidence emerging from EUROFER, EUROMETAL, FEM and T&D Europe points towards a broader transformation in the way European industrial policy must be understood.

For years, climate regulation, trade defence, energy policy and industrial competitiveness have frequently been addressed through separate institutional and legislative frameworks. Yet the practical realities described by the four industry representatives demonstrate that companies do not experience these policies separately. They experience them simultaneously.

A steel producer evaluates the cost of electricity, the availability of hydrogen, carbon leakage protection and demand for low-carbon products. A steel distributor must manage procurement, emissions data, financing, customs procedures and commercial contracts. An equipment manufacturer must absorb material costs while maintaining investment in engineering, digitalisation and decarbonisation. A grid technology producer must secure access to specialised inputs while responding to the demand created by Europe's electrification targets.

Each decision is connected to the others. This interdependence creates a strategic vulnerability: the European Union may establish ambitious objectives across individual policy areas while failing to sufficiently assess their combined impact on the companies expected to implement them.

Three dimensions of the challenge

01 INDUSTRIAL COMPETITIVENESS IS INCREASINGLY DETERMINED BY THE ENTIRE VALUE CHAIN

The argument advanced by EUROMETAL is particularly important because it challenges the assumption that protecting primary production automatically preserves industrial capacity. If downstream manufacturing relocates, the demand supporting domestic steel production may weaken as well. EUROFER's investment argument reinforces this point. Low-carbon steel projects require not only technological readiness but also sufficient demand and competitive operating conditions. The competitiveness of primary production therefore depends on the commercial health of the industries purchasing its output.

02 REGULATORY PREDICTABILITY HAS BECOME AN INVESTMENT CONDITION

Both Julius and Domínguez identify the consequences of regulatory complexity and cumulative compliance obligations. Their assessments reveal that uncertainty can consume working capital, management capacity and engineering resources. This is especially relevant for SMEs operating within complex industrial supply chains. Unlike larger multinational groups, smaller manufacturers and distributors may have limited administrative and financial capacity to absorb repeated regulatory adjustments.

The issue is not whether European industry should comply with environmental requirements. It is whether the implementation of those requirements allows companies to continue investing in the innovation and decarbonisation that European policy ultimately seeks to encourage.

03 ENERGY AND INFRASTRUCTURE POLICY ARE BECOMING INSEPARABLE FROM ECONOMIC SECURITY

Peereboom's argument takes the discussion beyond industrial costs and into the strategic resilience of the European economy. Electricity networks are critical infrastructure. Their reliability depends on the availability of advanced technologies, specialised manufacturing capabilities and resilient supply chains. A strong European grid technology industry is therefore not simply an industrial competitiveness objective. It is part of

the infrastructure required to sustain economic activity, electrification and energy security.

The interviews point to related but distinct conditions. EUROFER stresses competitive electricity and hydrogen prices for steelmaking; T&D Europe highlights visibility over future grid demand, investment certainty and the domestic capacity needed to manufacture critical technologies.

The policy collision

The European Union is attempting to strengthen its industrial position while simultaneously pursuing ambitious climate objectives, reforming its trade defence architecture and accelerating the electrification of its economy. These objectives are not inherently incompatible. However, their implementation requires a level of coordination that goes beyond individual regulatory files.

The question for European policymakers is whether the combined architecture of climate, trade and industrial policy is sufficiently coherent to support the productive capacity Europe wants to preserve.

A carbon border mechanism cannot be evaluated exclusively through the carbon content of imported goods. Its wider industrial implications must also be considered alongside the competitiveness of European manufacturers, the availability of essential inputs and the investment conditions required to maintain domestic production. Likewise, trade protection cannot be judged exclusively by the immediate benefits it may provide to one segment of industry. Its effects on downstream users, technology providers and strategic infrastructure must also be assessed.

The Gazette Desk's analysis does not reject Europe's climate ambition or industrial safeguards.
It calls for coherent assessment of CBAM and related measures across the value chain.

European industry needs a framework in which decarbonisation, competitive production, reliable infrastructure and economic security reinforce one another rather than compete for the same financial and industrial resources.

04 / THE GAZETTE DESK ASSESSMENT

Four Strategic Priorities for European Policymakers

The Gazette Desk's synthesis of the four interviews is that Europe's industrial transition requires more than ambitious targets and individual protective instruments. It requires a coherent policy architecture that recognises how costs, incentives and vulnerabilities move across the value chain.

1. ASSESS CBAM ACROSS THE ENTIRE VALUE CHAIN

The downstream dimension must remain central to the legislative debate. The protection of primary production should be accompanied by a credible assessment of the competitive position of European manufacturers using carbon-intensive materials. Any extension of CBAM should be designed carefully, with attention to product coverage, emissions methodologies, verification and the risk of creating new administrative distortions.

2. ADDRESS THE CUMULATIVE COST OF INDUSTRIAL REGULATION

Policymakers should evaluate the combined impact of carbon costs, reporting requirements, trade measures and energy prices on manufacturers, distributors and SMEs. Regulatory predictability and proportionate implementation periods are essential for maintaining investment capacity.

3. ALIGN TRADE SAFEGUARDS WITH STRATEGIC INFRASTRUCTURE OBJECTIVES

Measures designed to protect European material producers must also be assessed against their effects on downstream technology manufacturers. The availability and affordability of specialised inputs are essential to the delivery of Europe's electricity networks and electrification targets.

4. TREAT INDUSTRIAL CAPACITY AS AN ELEMENT OF ECONOMIC SECURITY

Europe's strategic autonomy depends not only on access to raw materials but also on the continued presence of manufacturing expertise, engineering capabilities, technology providers and resilient supply chains within the Union.

THE FINAL VERDICT

Europe's CBAM debate is no longer simply about putting a carbon price on imported materials.

It is becoming a test of whether the European Union can reconcile its climate ambitions with the economic realities of its industrial value chain.

The Gazette Desk's cross-sector analysis identifies a structural challenge across the four industries: competitiveness cannot be secured through isolated interventions at individual stages of production.

Protecting steelmaking while exposing downstream manufacturing, accelerating electrification while increasing pressure on equipment suppliers, or demanding industrial decarbonisation without ensuring competitive energy and predictable investment conditions creates risks that extend far beyond individual sectors.

> Europe cannot build industrial resilience by protecting one link in the chain while weakening the others.

The real test of CBAM will not be measured solely by the carbon costs imposed at Europe's borders. It will also be measured by whether Europe retains the industrial capacity to produce, transform, manufacture and build within its own economy.

> Energy policy is no longer just a climate dossier. Trade policy is no longer just a question of market access. Industrial policy is no longer just a question of production.

Together, they have become fundamental components of Europe's economic security.

RESEARCH AND STRATEGIC ANALYSIS
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SOURCE MATERIAL
Original executive interviews published by The Gazette with Axel Eggert (EUROFER), Alexander Julius (EUROMETAL), Ernesto Domínguez (FEM), and Diederik Peereboom (T&D Europe).

Explore the original interviews and The Gazette's coverage: https://the-gazette.eu

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