

# European Aluminium Position on ETS Phase IV

## First Reading

### European Aluminium & ETS Reform (Phase IV)

The current ETS reform represents a major opportunity to articulate a more balanced and predictable energy, climate and industrial long-term regulatory framework in Europe. This reform should help to sustain Europe's lead in the global fight against climate change and to strengthen the competitiveness of strategic industries like aluminium producers. Aluminium is in high demand material for key sectors such as mobility, infrastructure and electronics. It is a must for a low carbon economy.

However, the aluminium industry is among the sectors most exposed to the risk of carbon leakage due to the current ETS design. As a result of its high electro-intensity, addressing the risk caused by indirect costs (i.e. carbon costs included in the European electricity bill from the power producers) is essential for the future competitiveness and innovation of the industry. Such costs are 6 to 7 times higher than direct carbon costs. As a globally priced commodity, extra costs cannot be passed on into the aluminium price.

An ideal ETS reform for the 2021-2030 period would enable investments and competitiveness in electro-intensive industries if it:

- ✓ Acknowledges the equally harmful effects on industry competitiveness of direct and indirect costs by providing the same protection level : 100%, up to benchmark levels, in a predictable manner
- ✓ Reflects the real dynamics of economic development by adapting free allocation rules, including benchmarks and production data.

### Our focus

European Aluminium is working in a constructive way with European and national decision makers to find viable carbon leakage protection solutions in the following key areas: indirect carbon costs, benchmarks and production data. Our association is processing data and sharing highlights transparently during the entire negotiation of this file.

### Areas & position

1. **Indirect carbon costs:** indirect costs should be fully compensated at same level as direct emission cost in a more predictable, effective and balanced manner. This will ensure competitiveness and foster new investments in Europe.

### State of play:

In line with several proposals to move from a pure voluntary compensation ("Member States may support...") to a hybrid model, we encourage decision makers to design a more ambitious scheme, combining a common EU-driven support (covering around 50% of the total indirect costs for all eligible industries) together with the possibility for Member States to top up this support and allow full compensation, up to benchmark levels. Full compensation, partly from EU driven support would limit the risk of carbon leakage, secure the global competitiveness of the best performing installations and reduce discrepancies in levels of support between European regions. Ultimately this more predictable framework will stimulate new investments in aluminium production.

2. **Free allocation rules:** The review of the **benchmarks** should be done periodically based on recent verified actual data. The automatic reduction system suggested by the Commission is not reflecting the reality of the

technical evolution of our industry. **Actual production data** must be used in compensating the exposed industries, without setting any thresholds for production increases and decreases.

***State of play:***

A wide number of proposals have shown that automatic benchmark reduction is not the most convenient solution for several industrial sectors. Moreover, European Aluminium data confirmed that today's 20 operating plants emitted 800 ktCO<sub>2</sub> less (-12%) than in the reference period (2007/2008), but without any change of the benchmark value (defined as the Top 10% of the production). A fixed yearly reduction of the product benchmark would not recognize this material improvement of the vast majority of the installations, which are already close to the theoretical minimum emissions. We therefore support proposals to review the benchmarks based on recent data every five years.

The proposed time-lag in aligning allocation with changing production level is still significant and will not reflect the real dynamics of economic development. Allocation rules must also ensure flexibility to adapt production to business cycles and to avoid accelerating closures. We therefore support that more recent production data must be used in defining the free allocation level for the exposed industries, with realistic low and mirrored thresholds for production increases and decreases. Such mirrored approach, based on verified production levels, will also limit the windfall profit of the current trading period.

For more details, please contact:

Máximo Miccinilli, Director Public Affairs & Communications at European Aluminium

E-Mail: [miccinilli@european-aluminium.eu](mailto:miccinilli@european-aluminium.eu)

Mobile : (+32) 0 486 780 653

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