

European Aluminium represents the entire value chain of the aluminium industry in Europe. We welcome the European Commission's review of the EEAG. It represents a unique opportunity to improve and update the current regime to reflect the latest EU regulatory and policy developments stemming from the low carbon transition affecting the competitiveness of our sector, ranging from EU energy, climate and environmental legislation to global trade and competition law developments over the last decade¹.

Also, Covid-19 crisis shines a light on Europe's dependence on strategic raw materials from other regions. Europe should urgently reflect on how to reinforce its strategic autonomy in global value chains, preserve existing industrial assets and reshoring the production in Europe instead of relying on carbon-intensive imports. Reduced European production will only increase our dependency on primary imports with a significantly higher carbon footprint. The aluminium value chain should thus be at the forefront of strategic eco-systems, both in the recovery plan and in the transition to a climate-neutral and circular economy. Industries in Europe need today more than ever an enabling state aid framework to be more energy-efficient, competitive, circular, and sustainable in order to deliver and invest in climate neutrality while operating in a free and fair-trade environment.

Summary of key policy asks

We strongly disagree in with the European Commission that it *"is unclear, whether the existence of reductions for Energy Intensive Users has led to the introduction of more ambitious renewables policies by all Member States"* and that *"the effectiveness of those reductions seems to vary depending on the proportion of the RES charge over the electricity bill for Energy Intensive Users in the various Member States"*².

In our industry, the reductions for energy intensive of RES charges has been an effective tool to protect our industry against carbon leakage and the increased costs Aluminium producers face only in Europe (see case studies in ANNEX to this consultation response). Furthermore, these reductions have played a crucial role in enabling the introduction of more ambitious renewable policies across Europe, by ensuring the stability of the financing base. Reductions for Energy Intensive Users (EIUs) are a consequence of renewable energy support schemes, not the other way around.

Furthermore, we strongly disagree on the proposal to use the EU Sustainable Finance Taxonomy as a tool to identify the contribution to environmental protection. The Taxonomy Regulation is addressed to financial market participants and was originally conceived by EU policymakers to be a voluntary transparency tool to facilitate the disclosure of sustainability information by companies. Its scope is not to restrict or condition access to financing, but to set up certain criteria to be taken into consideration when an investment can be labelled sustainable.

For this reason, we call upon the European Commission to:

- **Preserve the approach adopted in paragraphs 188 and 189 of the current EEAG, wherein relief granted is proportionate to the specific exposure of each sector at the level of undertaking/activity.** In particular, **the reduction of RES surcharges** has been vital for preserving competitiveness and preventing carbon leakage in our industry. **The reduction of RES surcharges by 85% for industry, with the possibility of limiting the costs to 0.5% of GVA for the most electro-intensive undertakings, should thus be maintained.** The Guidelines should also specify that **in the case of an integrated undertaking with activities in numerous sectors, the**

¹ See [OECD Report](#): "Measuring distortions in international markets: the aluminium value chain" (7 January 2019)

² See also EC EEAG Inception Impact Assessment Roadmap, December 2020

GVA should be calculated at the sub-undertaking level.

- **Maintain the principles embedded in EEAG that any aid to renewables' generation must be granted in a cost-effective manner based on competitive bidding. Furthermore, introduce enabling conditions for the competitive consumption of RES electricity, particularly for electro-intensive industries.**
- **Extend the EEAG's scope to reflect recent case law on existing surcharges related to the energy transition. This must carefully consider all future costs as a result of the path towards higher emission reduction targets for 2030 and the 2050 climate neutrality objective. The GVA cap could potentially cover all related incremental costs.**
- **The new EEAG must provide long-term certainty on regulatory costs related to electricity consumption so that solutions such as long-term low carbon PPAs can become more attractive. One possible form could be a cross-border support mechanism backed by a public guarantee aimed to allow Energy Intensive Users (EIU) to source their renewable energy from where it brings most value while protecting them against electricity costs volatility and cross border risks.**
- **Important Projects of Common European Interest (IPCEI)³ and breakthrough innovation:** The Commission IPCEI criteria should be amended to allow funding for the operational costs incurred by the use of low-carbon production processes, including the additional costs incurred when consuming renewable electricity.
- **Support for circular value chains and sorting infrastructure:** The current Guidelines do not reflect the higher ambition for climate and circularity under the Green Deal and recently released Circular Economy 2 Action Plan. Aid should go beyond waste management systems and focus higher up the waste hierarchy to support innovative circular solutions.
- **Operating aid is not the only measure that can ensure the deployment of renewables: Investment aid can be a more viable option that offers certainty to investors.**
- **Competitive bidding process:** Bidding should remain the general rule for when there is competition and when projects are comparable and not at the early stages of the development process. However, industries with hard to abate emissions, and no available scalable technology, will need larger support than other type of industries where technologies are available. Therefore, competitive bidding might not be the only appropriate criteria to be considered and emission reduction potential must be taken into account.
- **In the review, the Commission should explore the possibility of demand-side measures to incentivise low carbon products.**
- **The EU Taxonomy must not be used as a tool for deciding when and if to grant aid. Competition policy should focus on facilitating access to affordable finance for European industry's decarbonization projects where the market itself cannot deliver.** Restricting access to state aid for energy-intensive users based on EU taxonomy rules would annul the positive effect aimed at by measures preventing carbon leakage.

³ See [here](#) EC Communication on Criteria for the analysis of the compatibility with the internal market of State aid to promote the execution of important projects of common European interest

EU State Aid Policy in the low carbon transition & Covid-19 Recovery

Aluminium demand has been rising steadily and is expected to continue rising towards 2050⁴. Aluminium's unique properties make it the material of choice to fully decarbonize our economy. But without a level playing field preserving the competitiveness of the European industry, increased demand in Europe risks to be met by imports from other regions, with higher carbon footprint and less stringent/no climate regulations in place.

Furthermore, aside from “domestic demand”, it should not be disregarded that European aluminium production⁵ is hampered from competing against non-European producers in order to meet the steadily increasing global demand. **Adequate compensation under the ETS State Aid Guidelines⁶ for indirect costs and improved EEAG are simply indispensable.** State aid rules are thus a key tool to create the right framework for preventing carbon leakage and enabling European industry to remain competitive versus its global competitors, while meeting the EU's and global climate and sustainability objectives agreed under the Paris Agreement and the 2030 Agenda.

The EEAG currently in force acknowledge electro-intensity and exposure to international trade as key criteria for granting aid. **In particular, the possibility for targeted Renewable Energy Sources (RES) charge reductions⁷ has played a crucial role in limiting carbon leakage for our sector, given that Aluminium smelters are particularly sensitive to any increase in the cost of electricity⁸.** Electricity costs tend to account for up to 40% of a primary aluminium smelter's total production costs.

Therefore, **the reduction of RES surcharges has been vital for preserving competitiveness and preventing carbon leakage in our industry. The reduction of RES surcharges by 85% for industry, with the possibility of limiting the costs to 0.5% of GVA for the most electro-intensive undertakings, should thus be maintained^{9,10}.**

Furthermore, the immediate economic and social impact of the COVID-19 crisis on global material value chains and the EU's internal market must be thoroughly assessed in the review, particularly in the context of the re-adjusted EU policy priorities part of the Recovery Plan¹¹. In this respect, **stimulating demand for strategic and low carbon materials like aluminium for the acceleration of e-mobility, the buildings' “renovation wave” and a circular economy based on the closed-loop usage of our material resources, should be carefully considered.** Possible tools could be the **use of public procurement measures or new public funds to incentivise the purchase of a higher degree of green and local (EU/EEA) production from entities receiving aid temporarily and across the aluminium value chain**, thus addressing the shortage of demand and boosting the recovery of the overall economy. This could

⁴ Source [European Aluminium, Vision 2050](#)

⁵ European meaning the EU28 + EFTA countries

⁶ See [here](#) our response to the European Commission's consultation on the draft ETS State Aid Guidelines (March 2020)

⁷ See section 3.7.2, points 188 and 189 of the [Guidelines on State aid for environmental protection and energy 2014-2020](#)

⁸ A recent [study](#) by EWI concluded that a cost increase of 1 cent per kWh reduces the GVA of an aluminium smelter by 24%, or 15 million Euros, whereas abolishing the reductions to the regulatory charges paid by aluminium smelters (including RES support) would consume the entirety of these consumers' GVA and turn it negative

⁹ See section 3.7.2, points 188 and 189 of the [Guidelines on State aid for environmental protection and energy 2014-2020](#)

¹⁰ In Greece for example, the average all-in electricity price paid by European smelters is 39.6 €/MWh (according to the Commission's 2018 Energy Prices & Costs Report). Paying the full RES surcharge in Greece would increase our electricity costs by 16.7 €/MWh -> this is an incredible 42% increase on the average electricity price paid by European smelters. Since electricity is 40% of our production cost, paying the full RES surcharge would also increase our total production costs by 16.8%. Further details are outlined in the annex

¹¹ See [here](#) European Aluminium Policy Recommendations for an EU sustainable industrial recovery plan (May 2020)

also be part of the Commission's reflection on **how to integrate incentives for the adoption of greener technologies and practices, including circular material materials like Aluminium, in future recovery measures.**

Overall, the EEAG review is an opportunity to strike a balance between several EU policy objectives under the EU Green Deal, the new EU Industrial Ecosystems and Recovery Plan: **to support European industry's decarbonisation, to protect its global competitiveness and to ensure a global level playing field while also further promoting a fair and open multilateral trade system¹² in the context of recovering from the global health crisis and economic slowdown.**

The improvements needed

Access to affordable and clean energy in a cost competitive and fair manner as the EU economy decarbonises remains a key challenge for our sector, which faces fierce global competition from producers in other regions enjoying access to cheap electricity largely due to the absence of similar regulatory costs as the ones levied in the EU (indirect carbon costs, RES charges, taxes etc.).

More specifically, the costs related to the ongoing energy transition are not merely limited to RES surcharges. In fact, the energy transition has led to Europe's most electro-intensive industrial consumers being burdened with numerous other costs, which threaten their global competitiveness. To address this issue, **the European Commission has evaluated (and approved) targeted reductions to numerous other electricity surcharges outside the scope of the EEAG by evaluating with the Treaty provisions on the internal market under Article 107 (3).** For this reason, in order to ensure consistency and legal certainty, **this new State Aid Case Law should be integrated into the new EEAG.**

Finally, in view of the increased climate ambition for 2030, we believe that it will be vital for our sector to **strengthen the provisions on aid to be considered compatible with EU law when targeted at energy-intensive companies operating in Europe that are exposed to international trade** and are key for preserving jobs, competitiveness and the sustainable growth of our economies. It's extremely important to stress that affordability of energy, employment and industrial growth comprise **key UN Sustainability Goals**, alongside efforts to limit global warming¹³.

Against this background, we invite the Commission to integrate the following elements in the new EEAG:

- **Preserve the approach adopted in paragraphs 188 and 189 of the current EEAG, wherein relief granted is proportionate to the specific exposure of each sector at the level of undertaking/activity.** Such approach removes any risks of overcompensation or market distortion. The rules in Section 3.3.2.1 of EEAG on aid for electricity from renewables must also be preserved, while related exemptions should be limited in size and scope. The scope of reductions for energy-intensive industries from RES surcharges is to protect European industry against increased costs determined by regulatory, non-market-based measures and to prevent

¹² This was also stressed by the in the [final report](#) of the Industry 2030 high level industrial roundtable (28 June 2019) which recommends the next European Commission to develop a "carbon-leakage 2.0" plan and consider the access of industry to affordable renewable electricity in the EEAG review

¹³ As highlighted in the very recent FSR "[Cost-Effectiveness Decarbonization Study](#)" (Nov. 2020), "*The EU has consistently identified three core objectives of its energy policy; sustainability, competitiveness and security of supply. At least in theory, these have been viewed to be an equilateral triangle, with all objectives being equally important and to be given equal weight in policymaking.*"

carbon leakage and loss of European jobs. It is incorrect to consider that the scope of this relief instrument is to encourage deployment of renewables. The reductions from RES surcharges are a consequence of RES support schemes creating additional costs for energy intensive consumers, they are not an enabling condition for RES deployment.

- Related to the point above, the guidelines should specify that **in the case of an integrated undertaking with activities in numerous sectors, the GVA should be calculated at the sub-undertaking level**. This is necessary to ensure accuracy, since the use of the GVA of the undertaking as a whole (instead of the specific sub-undertaking's GVA) would artificially inflate the GVA, leading to disproportionate aid amounts or an erroneous understatement of the electro-intensity¹⁴.
- **The principles in paragraphs 188 and 189 should be extended to include charges** caused by the integration of new decarbonisation technologies or policies stemming from the EU Green Deal (e.g. energy storage, new infrastructure, smart grids). All these decarbonization measures will determine increase in the electricity price for consumers, therefore exposing the aluminium industry to the risk of carbon leakage as these costs are incurred only by companies located in Europe.
 - Therefore, we consider appropriate that the EEAG should include **a cap to the total climate costs (costs determined by EU increased climate ambitions) in the electricity bill** paid by industrial consumers facing global competition: various support schemes, public service obligations, capacity mechanisms, CHP-HP, storage, network tariffs, etc. Such measure would provide legal certainty on the level of climate costs paid by aluminium industry, providing the industry with price visibility over the next decade, fostering investments in European industry.
- **Approval of support schemes for RES or other decarbonization technologies must be conditioned on the inclusion of an impact assessment study, prepared by a neutral party, a study that would analyse the costs incurred by the support measure on other market participants or on consumers**. Such a study would ensure social acceptance of the support measure and it is a tool specific to good governance.
- **Keep in mind that operating aid is not the only measure that can ensure the deployment of renewables**: Investment aid can be a more viable option that offers certainty to investors. Other measures include improving market conditions for renewables, reducing cost of capital (i.e. state-guaranteed loans), improving administrative environment to reduce red-tape costs, etc. Current RES support schemes (based on operating aid) often create strong disincentives for RES producers to sell their production to industrial consumers (this problem was actually acknowledged by the Commission itself in a recent report on industrial RES sourcing¹⁵). In order to facilitate the widescale deployment of renewable electricity, it is crucial for the EU to adopt a more holistic approach to RES support. Support schemes should be redesigned in a way that benefits both the producer and the consumer. In particular, by providing compensation for the additional costs that **consuming** renewable electricity tends to entail, industrial PPAs could be signed in a way that benefits both the producer and the consumer. This would lead to the wide-scale decarbonisation of both European industry and the European power sector, and would be achieved at a much lower cost than the one associated to current support schemes (which are already facing funding problems in many European countries).

¹⁴ Such approach is currently used by Germany (see the [EEG 2014 Act](#), Articles 64(5), 103(3) and 103(4)).

¹⁵ [European Commission](#), 2019. Competitiveness of corporate sourcing of renewable energy.

- **Maintain the principles embedded in EEAG that aid to renewable energy technologies must be granted in a cost-effective manner based on competitive bidding. This in turn would ensure the market integration of renewables and a gradual phase-out of operating aid as grid-competitiveness is also gradually achieved.** As a principle, aid should not determine overcompensation and must no longer be granted when it is not needed. The constant decrease in RES technology costs must be reflected in the level of granted aid. When it comes to industrial sectors with hard to abate emissions, competitive bidding might instead not be the only solution and other solutions such as aid applications, aid intensity or the funding gap approach should be also considered.
- **Regulate clearly “contract for difference” (CfD) mechanisms** which have recently started to be used by several Member States for RES projects. The mechanism must also take into consideration the massive drop of RES technology costs. It is appropriate for the Commission to set the regulatory framework for new instruments for the purpose of providing guidance and preventing market distortions and over-compensation.
 - Industries with hard to abate emissions and no commercially available technology will need larger support than others where technologies are available. This is the case of Aluminium, especially for the primary production process but also other segments of the value chain where there is a general lack of business case due to the extremely high investment costs to develop new technologies;
 - Therefore, when it comes to CfDs, competitive bidding might not be the only appropriate criteria to be considered. Emission reduction potential should also be taken into account;
 - CfDs could be one of one solution but a lot of other conditions are needed to make them the most efficient tool. More public funding for Research and Development (R&D) is needed, especially considering the high abatement costs for reducing primary aluminium’s direct emissions as well as for switching to other promising technologies to further decarbonise industrial processes down across the value chain;
 - One possible form **could be a cross-border support mechanism backed by a public guarantee aimed to allow Energy Intensive Users (EIU) to source their renewable energy from where it brings most value while protecting them against electricity costs volatility and cross border risks.**
- **Extend the EEAG’s scope to reflect recent case law on existing surcharges related to the energy transition. This must carefully consider all future costs as a result of the path towards higher emission reduction targets for 2030 and the 2050 climate neutrality objective.** The increasing share of intermittent renewables has caused the need for flexible capacity. For example, abiding by the recently adopted Electricity Market Design (EMD) Regulation and existing Guidelines, the Commission has allowed Member States to adopt capacity remuneration mechanisms (CRMs) to support such capacity. For this reason, the scope of Section 3.7.2 of the EEAG should be extended in order to also encompass the following reductions:
 - **Alleviation from surcharges levied for funding Capacity Mechanism:** full capacity mechanism surcharges put energy intensive consumers at a significant competitive disadvantage when competing globally, which could eventually lead to their bankruptcy or relocation. This would in turn reduce the public acceptance of the capacity mechanism, given that the remaining consumers would face increased charges as a result of the bankrupted/relocated consumer no longer contributing. At the same time, given the variable nature of electricity generation from renewable energy sources,

controllable capacity (e.g. conventional generation, demand response, storage) will continue to play a crucial role in ensuring security of supply. Section 3.9.1. of the EEAG confirms that generation adequacy is an objective of common interest. As a consequence, reductions in capacity mechanism surcharges¹⁶ must also be considered as contributing to an objective of common interest to the extent that they are necessary to maintain a stable financing basis for the capacity mechanism. Therefore Section 3.7.2. of the EEAG should be broadened to also encompass such reductions.

- **Reductions in funding support for high-efficiency cogeneration (HE-CHP):** The European Commission expressly recognised in recent case law the similarities between reductions in RES charges and reductions in HE-CHP charges as well as the similarities between the justifications for each type of reduction and the objective of common that they pursue. In several approved schemes it recognised that targeted reductions can also indirectly contribute towards the same objective of common interest, *“in cases where such reductions are necessary in order to secure the financing base for the HE-CHP support scheme”*¹⁷.
- **Reductions in the funding of Public Service Obligations (PSOs):** Similarly, in recent case law¹⁸ the Commission also approved reductions of PSOs related to the ensuring equal electricity price in non-interconnected areas and social tariffs. Here it recognised that *“to prevent electricity consumers particularly affected by the costs of funding high-efficiency cogeneration, tariff equalisation and social tariffs, i.e. companies that are both electro-intensive and at risk of international competition, from becoming insolvent or relocating outside the European Union, reductions in charges imposed on electricity consumption may prove necessary”*. Here the Commission based its Decision using the criteria set out in paragraphs 188 and 189 of the EEAG, thus acknowledging the need to balance on the one hand the particular burden on companies and risk of relocation with the need to ensure a sufficient contribution to the measure.
- **Reduction (or exemption) from charges caused by the integration of new decarbonisation technologies or policies stemming from the EU green deal (e.g. energy storage, new infrastructure, smart grids).**
- **Continue to facilitate the participation of industrial consumers in demand-response schemes.** This will help to facilitate the corporate sourcing of renewable electricity, and more capacity available to demand-response schemes.
- **The new EEAG must provide long-term certainty on regulatory costs related to electricity consumption so that solutions such as long-term low carbon PPAs can become more attractive.** A key issue is that the current guidelines have a time span that is much shorter than a RES PPA or the payback period of investments. Therefore, the EEAG should:

¹⁶ The Commission is also currently investigating (SA.51502) whether a reduction in capacity mechanism surcharges can be considered compatible with the internal market under Article 107(3)(c) TFEU. Although the Commission has not yet reached a final decision on the compatibility of such reductions, the decision to initiate the formal investigation procedure (C(2019)2504 final, recitals 72 and 73) mentions that Section 3.7.2. of the EEAG “can be used as guidance”, particularly with regard to the eligibility criteria and proportionality of the aid.

¹⁷ Commission Decision 2017/1797 on aid scheme SA.42393, recital 125; Commission no-objection decision concerning SA.38635 (C(2017) 3406 final), recitals 132 et seq. Such reductions have already been approved in several Member States, including Germany (SA.42393), Italy (SA.38635), France (SA.36511), Greece (SA.52413) and Poland (SA.52530).

¹⁸ See Decision 2019/767 on SA.36511

- include long-term guidance when it comes to regulated components to increase the effectiveness of the rules. This would clarify and improve legal certainty of existing legislation across Europe related to long-term competitive contracts such as Power Purchase Agreements (PPAs) and be a solution to help the market to take-off¹⁹;
- Outline a framework to facilitate Energy Intensive Users (EIUs) to access renewable electricity in Europe from where it brings most value and **facilitate the signature of cross-border PPAs**. Such mechanism could take the form of an EU publicly backed offtake guarantee scheme, also in the form of a Contract for Difference (CfD), tailored for the consumption of renewable energy by energy intensive consumers²⁰.
- **On Aid award procedures:**
 - **Transparency:** Transparency should be the norm when it comes to state aid measures as they involve public resources or money collected from private persons or companies via surcharges. In either situation, there is an ethical need to adequately inform the public on the efficiency of the measure, but more importantly on the impact the measure has on final consumers in terms of increase in costs. The benefits as well as the negative effects of the measure e.g. on competitiveness of EU/national industry or economy should be clearly detailed and explained. Of course, commercially sensitive information must remain outside the scope of such requirements. **Adequate consultation processes with the public should also be foreseen**. At the same time, it is important to acknowledge that more transparency will inevitably result in additional complexity and administrative burden.
 - **Broadening:** Circularity is another important objective which also contributes to the EU's decarbonisation goals. As mentioned further below, support for circular value chains and sorting infrastructure should be considered in the new framework. However, such broadening should include all undertakings producing the same good or service to preserve the level playing field.
 - **Competitive bidding process:** Bidding should remain the general rule for when there is competition and when projects are comparable and not at the early stages of the development process. However, industries with hard to abate emissions, and no available scalable technology, will need larger support than other type of industries where technologies are available. Therefore, competitive bidding might not be the only appropriate criteria to be considered and emission reduction potential must be taken into account.
 - **Cross border opening:** We do not support a requirement for Member States to open their support schemes. Today, cooperation mechanism and opening of support schemes are already allowed by the Renewable Energy Directive (RED), on a voluntary basis. Introducing a mandatory requirement would increase complexity.

¹⁹ See thereto also p. 23 of the [Final Report of the Industry 2030 high level industrial roundtable](#) (28 June 2019)

²⁰ This is already the case in Norway and more recently in Spain (see [here](#) and [here](#))

- **Important Projects of Common European Interest (IPCEI)²¹ and breakthrough innovation:** The Commission IPCEI criteria should be amended to allow funding for the operational costs incurred by the use of low-carbon production processes. The scope should be extended to support, under a set of defined conditions, innovation for the decarbonisation of existing products, including electricity supply. In this respect, a report published by DG ENER last year detailed the significant challenges that large corporate consumers face in consuming renewable electricity²². For this reason, public support via IPCEI could for example facilitate the uptake of renewable PPAs (including self-generation) by industrial consumers²³. Also, state aid should be allowed for relevant breakthrough technologies beyond CCS.
- **Support for circular value chains and sorting infrastructure:** The current Guidelines do not reflect the higher ambition for climate and circularity under the Green Deal and recently released Circular Economy 2 Action Plan. Aid should go beyond waste management systems and focus higher up the waste hierarchy to support innovative circular solutions, high quality recycling facilities and resource efficient industrial production processes. Further down the waste hierarchy, flexibility should be allowed for aid targeting innovative collection and sorting infrastructure and investments in high quality recycling facilities. Such measures would generate benefits in terms of resource efficiency, energy consumption and carbon emissions, thus in line with the EU Green Deal Objectives.
- **Explore the possibility of demand-side measures to incentivise low carbon products:** EU State Aid policy should stimulate the demand of low carbon products and incentivise their production. Building on the project-based approach in the renewable energy industry, contracts for difference or similar instruments could be considered to de-risk investments and make low-carbon products competitive with carbon-intensive ones.
- **Aid for buildings renovation and energy efficiency:** As in the existing Guidelines, aid should be allowed to promote investments in energy-efficiency in order to meet the targets of the Energy Efficiency Directive (EED). National schemes should be designed to benefit equally both residential and non-residential buildings.
- **The EU the Taxonomy Regulation should not be used as a tool for deciding when and if to grant aid:** The EU Taxonomy Regulation and the more detailed rules necessary for the full application of the framework are still under development. Reference to the EU Taxonomy should be considered under state aid decisions only if the technical criteria are realistic, achievable and embed all environmental, social and governance (ESG) dimensions of sustainability. **Today, for Aluminium it is not the case²⁴:**
 - We strongly oppose the use of the ETS benchmark methodology as a criteria to define the climate mitigation and adaptation thresholds (direct emissions) and the thresholds suggested on the carbon content of the consumed electricity of the power grid (indirect emissions). A threshold based on the

²¹ See [here](#) EC Communication on Criteria for the analysis of the compatibility with the internal market of State aid to promote the execution of important projects of common European interest

²² See [here](#) "Competitiveness of corporate sourcing of renewable energy", 2019

²³ The Strategic Forum for Important Projects of Common European Interest (see [here](#)) set up by the European Commission has identified 'Low CO2 Emissions Industry' as a strategic value chain and called for the establishment of IPCEIs in this field

²⁴ See [our response](#) to the Public Consultation on the Draft Technical screening Criteria (TSC) on climate mitigation and adaptation (December 2020)

- ASI-methodology²⁵ would best reflect the carbon footprint of European smelters compared to the aluminium industry globally and better reflect the sustainability performance of our production process²⁶.
- The lack of access to decarbonised electricity in certain countries/regions may be in fact a “limiting factor” to aluminium smelters achieving the taxonomy thresholds, thus creating a distortion in competition between aluminium producers within Europe. This is a function of the smelter’s location and the local availability of carbon-free electricity. Most smelters have very little or even no control over it. European producers already perform well significantly below the world average CO₂-emissions. Implementing such criteria could therefore be counterproductive, i.e. penalising aluminium producers with a below average carbon footprint and leading to a displacement of their production by more carbon-intensive producers operating in third countries (carbon leakage). The currently proposed taxonomy thresholds would lead to European smelters being labelled as doing ‘significant harm’ to the environment, despite having a carbon footprint that is two times lower than the global average and three times lower than the carbon footprint of producing aluminium in China (which accounts for ~60% of global production).
 - Furthermore, the EU Taxonomy Regulation does not cover all sectors, and also only partly covers the sectors that are eligible within its scope. This would lead to discrimination when granting aid. Therefore, restricting the definition of positive environmental benefits to EU taxonomy alone would be too narrow. For Aluminium, the following items could also be taken into consideration:
 - Reducing environmental /climate impact compared to existing production technology;
 - Reducing environmental/climate impact to e.g. BAT level, industry standards, best practice;
 - Carbon footprint in production;
 - Carbon footprint according to full life cycle assessment (LCA) including use phase benefits;
 - Recyclability, re-use and end-of life treatment of products;
 - Impact on environmental performance in other sectors;
 - Contribution to increased circular economy;
 - Energy efficiency.

²⁵ As explained in our consultation response to the draft Sustainable Finance Taxonomy Technical Report, June 2019: “ASI has taken 7 years to build a standard based on consensus among all constituencies and covering a holistic approach to governance, social and environmental performance. This is the most robust and recent set of requirements for the aluminium industry and therefore should be used as guidance: A threshold of 8 CO₂e/ton of Al including scope 1 and 2 emissions, to be met for new smelters from 2020, and by 2030 or earlier for existing smelters”. For further information, see ASI’s website and proposed methodology [here](#)

²⁶ See [here](#) our proposals in detail

Final considerations

The EEAG, together with the State Aid guidelines for the compensation of the indirect EU ETS costs are key instruments to support the deployment of renewables and decarbonisation while safeguarding the competitiveness of electro-intensive sectors.

In the review, the European Commission should recognise aluminum's value and key role in facilitating the achievement of the EU's energy and climate objectives. **A reformed and growth friendly EU state aid policy will be key in this respect by ensuring access to affordable renewable electricity for our sector**, starting from promoting the **long-term stability and certainty of power costs**, thus protecting European jobs, know-how and the overall sustainability of our economy against global competition.

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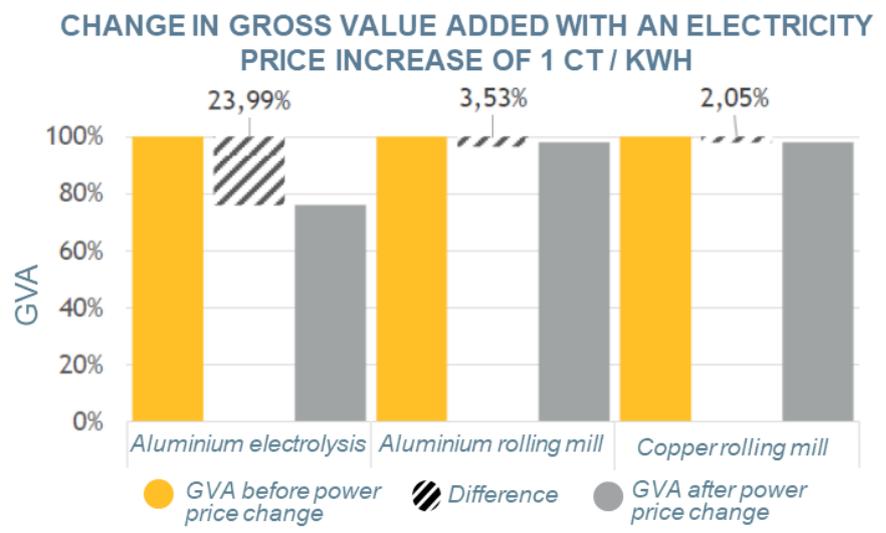
ANNEX – Case studies

GERMANY

The RES surcharge in Germany is the Renewables Energy Source Act (EEG) which came into effect 20 years ago and is responsible of significant growth in onshore wind, solar PV and biogas by establishing grid priority for the power sources and guaranteeing them generous feed-in tariffs. Existence of reductions for Energy Intensive users has not led to detrimental effect to the law. Overall, the EEG in Germany is regarded nationally and internationally as an innovative and successful energy policy measure. The EEG rate to be paid by industry has evolved over time from 20,5 €/MWh in 2010 to 67,56 €/MWh in 2020, which makes the price of electricity in Germany one of the highest in the world.

Based on our members' input, with no exemption, an aluminium rolling mill in Germany would pay a total electricity price of approximately 160 €/MWh (which includes the full RES surcharge) representing 43% of production costs. The effect of having or not an exemption is massive and translate into millions of Euro.

A 2019 study by EWI²⁷ analysed data on the effects of an increase in electricity prices on the gross value added (GVA) of the respective companies and the importance of the existing regulatory reliefs for hyper-electro intensive companies. The analysis showed that a **small increase of 1 ct/KWh in electricity prices could reduce up to 24% of the GVA of aluminium companies** (i.e. 15 Million Euro) while **the GVA of the entire manufacturing industry would decrease by an average of 0.5%.**

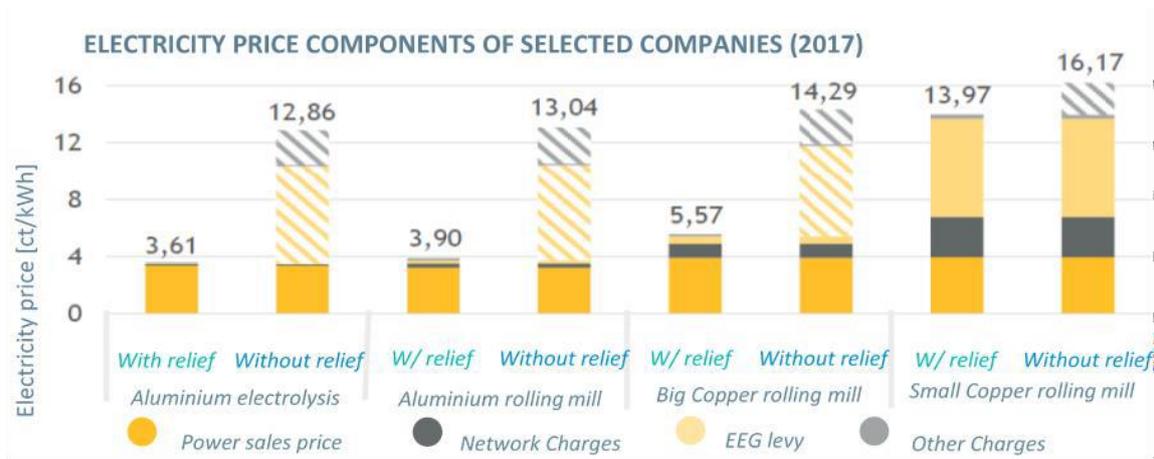


The electricity-cost intensity of the metal industry is the highest in with an average of 14.5%. The paper industry ranks the second at 9.5% electricity-cost intensity²⁸. The metal industry is therefore the most affected one by changes to electricity costs and electricity prices.

If faced with all regulatory price components, considerable increases in costs would arise. For example, **without the regulatory relief schemes the electricity price for aluminium electrolysis would be 3 times higher.**

²⁷ EWI, 2019. Electricity costs in the non-ferrous metal industry - A sensitivity analysis: <https://www.ewi.uni-koeln.de/cms/wp-content/uploads/2019/05/EWI-2019-Stromkosten-der-NE-Metallindustrie-Sensitivit%C3%A4tsanalyse.pdf>

²⁸ See graph 5 in page 13 of the 2019 EWI report



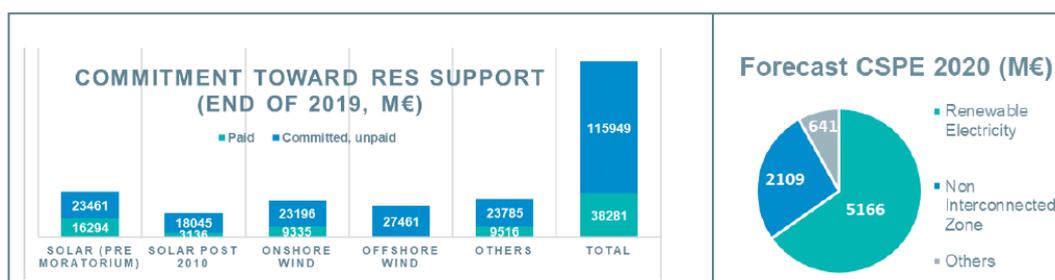
As reflected in the graph above, in Germany the costs for having to pay all regulatory price components would:

- For an aluminium electrolysis plant: completely erode its GVA and even turn it negative, reaching -75 million Euro. This plant would thus be **unprofitable**;
- For a large aluminium rolling mill: The GVA would drop by almost 58 M€ (32%).

Furthermore, in Germany, different studies concur that fuel switch due to the nuclear and coal phase outs (by 2022 and 2038 respectively) will have a significant upwards price effect. The highest price increase was estimated by Aurora Energy Research in January 2019 with 4 to 14 EUR/MWh (risk scenario). For the most electro-intensive industry this could be even 19 €/MWh due to an effect on the compensation on indirect costs).²⁹

FRANCE

Without RES/PSO surcharge caps, French industry would have to stop their operations due to potential increased charges of about 110% of its EBITDA. The figure below shows that Commitment for RE support of up to 149,080 M€ as of end of 2019, with 75% remaining to be paid³⁰.



In 2020, the base rate for the French Public Service Obligation amounts to 22.5 €/MWh, of which 65% covering the cost of renewables. Committed support of 149B€, of which 103 and 115B€ still remain to be paid on a period extending until 2043. The amount already paid, c. 35B€, represents approximately 25% of the total cost of these

²⁹ Aurora Energy Research, 2019. Auswirkungen der Schließung von Kohlekraftwerken auf den deutschen Strommarkt. Available [here](#).

³⁰ Source: [Annual Report CGCSPE, 2019](#)

commitments. This French RES surcharge is expected to increase by 23% in 2022 compared to the 2020 estimation; and will keep on increasing based on current and future commitment levels.

GREECE

Aluminium producer Mytilineos is Greece's largest electricity consumer. Without the possibility of RES surcharge reductions, total production costs would increase by 17% or €47,5 million annually.

In 2017, the average all-in electricity price for EU smelters was 39.6 €/MWh (including energy and regulatory charges³¹). Power costs for smelters in Greece represent a far higher share than the global average (33%), despite the smelter's high efficiency. **Without the EEAG reduction**, this figure would rise above 45%. On this basis **the Greek aluminium smelter would positively shut down**.

The base rate for the Greek renewable surcharge amounts to 17 €/MWh. The Greek RES surcharge reduction scheme (SA.52413) foresees a minimum rate of 0.3 €/MWh (regardless of whether the 0.5% GVA cap leads to a lower rate).

Therefore, without the possibility of RES surcharge reductions under the EEAG, Mytilineos' electricity costs would increase by 16.7 €/MWh (i.e. an incredible 42% increase on the average all-in electricity price paid by European primary aluminium smelters). In absolute terms, this translates into an additional cost of €47.5m each year.

ROMANIA

Aluminium producer ALRO is Romania's largest electricity consumer. Without the possibility of Green Certificates partial exemption, the total RES cost incurred by ALRO would increase by EUR 37 mln (e.g. 567%).

The Romanian scheme of partial exemption from Green Certificates acquisition for large energy intensive industrial consumers came in force in 2015 and is valid until the end of 2024. In 2018, a new law guaranteed the purchase of all Green Certificates awarded until 12/2031. If the energy intensives exemption were not extended from 2025 onwards, electro-intensives would incur in the full costs of green (for a 7+ years) and their competitiveness would be at serious risk.

From this starting point, a study by PwC³² analysed the possibility of aligning both timespans. In particular, the authors took a closer look at the impact of the exemptions on the profitability of ALRO a primary aluminium producer, the largest industrial electricity consumer in Romania. It was estimated that **following the exemption scheme expiry (by 2024), the aluminium smelter's cost would increase by EUR 37 mln (e.g. 567%) in the first year and 287.9 mln for the period of 2015-2031.**

³¹ For confidentiality reasons, we refer to the Commission's latest report on Energy Prices and Costs, which Mytilineos contributed towards

³² PwC Romania, 2019. Impact Study "Analysis of the mechanism for exempting the electro-intensive industrial consumers from the payment of green certificates": Attached to our member's reply – ALRO – to the EEAG Fitness Check Stakeholder Consultation back in 2019)

