

European Aluminium represents the entire value chain of the aluminium industry in Europe. We welcome the opportunity to share our views on the European Commission's plans to reform the European Emission Trading System (ETS) and the market stability reserve (MSR). This paper complements our response to the Public Consultation and our previous contribution to the 2030 Targets Plan Communication¹:

Our view is that increasing the EU's GHG emission reduction target from the current 40% to a higher level should be done only with a new climate and energy policy design that explicitly recognises EU carbon leakage and sets up an enabling framework to protect the aluminium industry in Europe. This is the "*condition sine qua non*" for our support to the EU's increased climate ambition. Europe's transition to a low carbon economy can only be achieved with more aluminium².

Therefore, the upcoming revision of the ETS framework represent an opportunity to improve the existing carbon leakage tools currently in place to protect our industry: while having significantly improved in reducing its carbon footprint³, Europe has lost more than 30% of its primary capacity since 2008, despite growing global demand for our product and related investments.

Such demand is instead being met by increased imports of carbon-intensive products, whereas EU production is declining. This is because no aluminium smelter outside Europe is exposed to carbon costs in their electricity prices, as well as other regulatory costs, primarily linked with European climate policies⁴.

Also for aluminium recycling, where energy savings represent 95% compared to primary production, higher cost stemming from more ambitious climate policies, will harm the competitiveness of European producers and further increase carbon leakage, given the need to increase recycling as metal sourcing to satisfy the growing demand⁵ on the one hand, and on the other its reliance on gas and fuel for the re-melting process.

In parallel, China today produces 60% of worldwide primary aluminium ingots (up from just over 10% in the year 2000). In the past five years, Chinese exports of semi-fabricated products to the EU have more than doubled. Combined with the fact that the production of primary aluminium in China is, on average, three times more carbon intensive than the production of the same metal in Europe, this is clear and undeniable evidence that carbon leakage has already occurred and is continuing to occur in our sector, leading to a net increase in global emissions.

Summary of key policy asks:

- **Contribution of ETS Sectors to the 2030 Target:** A more ambitious 2030 target should primarily ensure that sectors currently covered by the Effort Sharing Regulation (ESR) deliver emission reductions. In parallel, future contribution of the ETS sectors should be defined on the basis of a detailed analysis and should not go beyond what is cost effective.
- **Changes to the ETS cap:** the introduction of a modified Linear Reduction Factor (LRF) should take place as

¹ See [here](#) our policy note on the 2030 Targets Plans Communication

² See [here](#) World Bank Group Report "Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition", May 2020

³ According to the EU's Long-Term Emission Reduction Strategy³ in 2015 the energy intensive industry sectors directly emitted approximately 700 million tonnes of CO₂, which represents a reduction by more than 30% compared to 1990 levels. This was the second largest source of emissions reduction after the power sector (for production and heat). For aluminium, since the late nineties, primary aluminium in Europe has dramatically decreased - by 55 percent - its total direct CO₂ emissions. See [here](#) European Commission in depth analysis document at p. 19 & 25 and [here](#) our Vision 2050 Report

⁴ Since aluminium is globally priced by the London Metal Exchange (LME), European producers cannot pass on these extra carbon costs without losing significant market share and are price takers on the market. The ongoing review of the EEAG are thus crucial for protecting the European producers' competitiveness against carbon leakage. See [here](#) our position paper, January 2021

⁵ See [here](#) our Circular Aluminium Action Plan, May 2020

early as possible while rebasing should be avoided. The LRF should therefore remain the only instrument to set the cap. This ensures predictable and proportionate free allocation to industry, while also avoiding the violent supply squeeze (and resulting volatile price spikes) that would arise from rebasing. The new cap should be set in a way to avoid the introduction of a cross sectoral correction factor (CSCF) in phase IV of the EU ETS.

- **Carbon leakage measures:** The existing framework must be strengthened. A sufficient level of ETS free allocation must be ensured, and any type of reduction avoided, along with the provision of complementary policies supporting industry's investments and deployment of clean technologies development as well as reducing the costs and barriers to consuming decarbonised electricity. A Carbon Border Adjustment Measure (CBAM) covering Aluminium will not be effective to reduce global emissions in our sector, protect our value chain against carbon and investment leakage and stimulate the demand of low carbon aluminium products in Europe.
- **ETS Benchmark-based allocation & indirect costs compensation:** We support the Commission's proposal to increase transparency of the benchmarking process via mandatory publication of underlying data by industry. This however should foresee a thorough review of the data quality with industry experts. The benchmark values for free allocation, applicable from 2021 and onwards and to be updated ahead of the second sub-phase of ETS phase IV, should be designed in a realistic way. They should reflect technological challenges, feasibility costs and business models. With regards to ETS indirect costs compensation, the existing framework under national state aid rules should remain in place. The new ETS Guidelines represent the most optimal way to protect aluminium producers against carbon leakage due to increased electricity prices stemming from higher CO2 costs passed on in their electricity bill.
- **Extension of ETS to road transport & buildings:** If emission trading is extended to other sectors, it is important that these remain separate systems, with no interaction in the start-up years. A potential linking could be considered over time, but a timeframe for this potential integration should not be already integrated into the ETS Directive, given the uncertainties and risks.
- **Revision of the Market Stability Reserve (MSR):** Adjusting the MSR while remaining within the ETS cap, can be a way to avoid the introduction of the Cross Sectoral Correction Factor (CSCF) towards the end of ETS Phase IV. This would support the achievement of emission reduction targets and reduce carbon leakage risk. We propose to keep aside that surplus accumulated because of the economic downturn due to the COVID crisis and the financial crisis and protect such volume from the invalidation clause. These EUAs are highly needed surplus to cope with economic recovery and industrial growth.
- **Revenues & low carbon support mechanisms:** Once a stable financing base for indirect costs compensation has been secured, ETS Revenues should thereafter be mainly used to support clean investments in ETS sectors. It is of utmost importance to increase the financial support for the development and market uptake of low-carbon technologies. Most of the technologies available to decarbonise our value chain are still at a low Technological Readiness Level (TRL) and/or have very prohibitive costs, thus requiring significant financial investments that cannot be borne by individual companies alone.
- **Rewarding carbon removals & recycling via the ETS:** The EU Commission should develop new regulatory instruments for financing and rewarding negative emissions and for boosting recycling. One solution could be allowing offsite removal of emissions to be used to balance industries' remaining emissions under the ETS or strengthened carbon leakages protection for recyclers, thus further reducing CO2 emissions. In particular, Aluminium recyclers will be under significant cost pressure and uncertainty with the foreseen reduction of the ETS fall back benchmark and will have limited incentives to invest into new recycling capacity.

Contribution of ETS sectors to the 2030 Target

All economic sectors must play their part in trying to achieve the European target of a 55% reduction in GHG emissions by 2030. The reduction obligations between sectors needs to be balanced and based on the reduction potential of each sector in a cost-effective way. For Aluminium, these must take into account the fierce global competition we face, our trade exposure and the existing technological solutions available (or not yet available) to decarbonise our industrial processes.

As recognised by the European Commission itself, the EU ETS has proven to be an effective tool: emissions from stationary sources declined by 33% between 2005 and 2018.

According to the European Commission's Impact Assessment part of the 2030 Targets plan Communication, the foreseen share of GHG emissions reductions between ETS and non-ETS sectors under the Effort Sharing Regulation (ESR) show a reduction between 65/-69% for ETS sectors and -39/-41% for non-ETS sectors⁶. This threatens the current functioning of the ETS system and the competitiveness protection of industry. The sole -65% GHG reduction target is expected to decrease the cap level by 2 billion allowances, in turn translating into a decrease of 800 million free allowances.

We overall agree with the European Commission that other sectors of the economy under the ESR (i.e. transport, agriculture and buildings) have been more challenging to decarbonise. These sectors will thus have to play a crucial role for decarbonising the economy by 2030. Hence, a more ambitious 2030 target should primarily focus on ensuring sectors currently covered by the ESR deliver emission reductions. In parallel, future contribution of the ETS sectors should be defined on the basis of a detailed analysis and should not go beyond what is cost effective. This should include new measures to protect ETS sectors against carbon leakage, developed in close partnership with industry.

The proposed options: increasing the Linear Reduction Factor (LRF), Rebasing, both?

As an industry significantly exposed to direct and indirect carbon costs, regulatory certainty with regards to future carbon prices and protection against CO2 costs is crucial to make adequate and long-term investment decisions. Given this, **a one-off reduction in the ETS cap is not the appropriate instrument.**

According to the Commission, the update of the ETS stationary cap, either via increasing the Linear Reduction Factor (LRF) or rebasing would happen as early as 2025⁷.

Our view is that **the introduction of an LRF should take place as early as possible while rebasing should be avoided. The LRF should therefore remain the only instrument to set the cap. This ensures predictable and proportionate free allocation to industry, while also avoiding the violent supply squeeze (and resulting price spikes) that would stem from rebasing. The new cap should be set in a way to avoid the introduction of a cross sectoral correction factor (CSCF) in phase IV of the EU ETS.**

With regards the MSR, cancelling its allowances is sub-optimal and should be allowed only for credits generated outside the EU territory. Its functioning however should be amended: to prevent a CSCF in Phase IV, we would

⁶ See [Table 26, p.98](#) of EC Impact Assessment on 2030 Targets Plan Communication: "ETS scope extension and projected ambition levels in ETS and ESR for different sectoral coverages"

⁷ See [figure 17 p. 99](#) "Stylised examples of how to update the ETS Stationary cap" EC Impact Assessment on 2030 Targets Plan Communication

propose that part of the ready-to-be invalidated volume is set-aside and released later if necessary. We elaborate on this idea in more detail further below.

Carbon leakage: more protection is needed

Changes to the overall ETS cap level will affect the intensity of carbon leakage protection (i.e. the share of free allowances distributable) and the CO₂ abatement potentials of EU ETS sectors. Such revision must avoid a sudden and too fast reduction of the existing carbon leakage protection tools, especially the amount of free allocation to eligible aluminium producing installations. Energy-intensive industries have an inferior abatement potential (22%) compared to the power sector (70%). This results in the latter driving the cap level down speedily.

We are particularly concerned by the results of various recent studies which conclude that there is no evidence of carbon leakage during Phase III of the EU ETS. **Europe has lost 36% of its primary aluminium smelting capacity since 2008** (due to plant closures and curtailments). This production has been replaced almost exclusively by Chinese firms, which -even more importantly- are also covering all the incremental global demand for aluminium (which has more than doubled over the past twenty years⁸). China now accounts for almost 60% of global primary aluminium production (up from just over 10% in the year 2000)⁹, whereas every tonne of primary aluminium that is produced in China instead of Europe leads, on average, to an extra 13.3 tonnes of CO₂ being emitted into the atmosphere. **This is clear and undeniable evidence that carbon leakage is already an unfortunate reality in our sector.**

Also for aluminium recycling, where energy savings represent 95% compared to primary production, higher cost stemming from a more ambitious ETS cap, will harm the competitiveness of European producers and further increase carbon leakage, given the need to increase recycling as metal sourcing to satisfy the growing demand on the one hand, and on the other its reliance on gas and fuel for the re-melting process.

European Aluminium recyclers need to be protected against increased CO₂ costs. Our industry is facing significant R&D expenses as the technologies and a fully decarbonised energy system (i.e. switch to green fuels or electricity furnaces) are not yet ready and may also not be suitable due to technological limitations.

A sufficient level of free allocations must therefore be maintained, and any type of reduction avoided, along with the provision of complementary policies supporting investment' efforts in clean technologies development and deployment.

In particular, the amount of free allocation should be set in a way to ensure full protection of best performing installations, including then the total avoidance of the CSCF. This could be done by increasing the 3% allowances buffer introduced by ETS Directive 2018/410, Article 10a, paragraph 5a to further ensure that the CSCF is not applied before 2030. The share of allowances to be auctioned over Phase 4 should then be reduced by a higher percentage than the 3 % of the total quantity of allowances, foreseen by the 2018 ETS Directive.

Carbon border adjustment measure (CBAM)

When it comes to **the potential introduction of a Carbon Border Adjustment Measure (CBAM)** as an alternative to existing carbon leakage measures, **we believe a CBAM covering Aluminium will not be effective to reduce global emissions in our sector, protect our value chain against carbon and investment leakage and stimulate the demand**

⁸ [World Aluminium](#), 2020. Primary Aluminium Production

⁹ *Ibid*, 2020.

of low carbon aluminium products in Europe¹⁰. This is mainly due to the complexity of our value chain, the inability to calculate and measure indirect carbon costs vs indirect emissions as well as the easiness for our global competitors to circumvent the mechanism. Aluminium should therefore not be included in the scope and alternative measures should be further explored alongside improving the existing carbon leakage protection framework. **A CBAM should not replace nor undermine existing carbon leakage measures such as ETS free allowances and indirect cost compensation. ETS indirect costs compensation schemes should remain in place and not be diluted.**

ETS Benchmark-based allocation & indirect costs compensation

According to the ETS Free Allocation Rules (FAR)¹¹, there are two **product** benchmarks set for the aluminium sector: one for electrolysis (1.514 tCO₂/t Al in phase III) and one for the anode production (0.324 tCO₂/tAnode in phase III). All the remaining segments of the aluminium value chain are covered by the heat and fuel consumption fall-back benchmarks (62.3 tCO₂ /TJ and 56.1 tCO₂/TJ in phase III respectively). Such framework well caters to the specificities of the Aluminium value chain and different production processes.

The expected reduction for ETS Phase IV of the two product benchmarks (i.e. anode production and production of primary aluminium from electrolysis) closer to the minimum of the range, well reflect the narrow margin of further technological improvement of our primary production processes, which have already significantly reduced its footprint in the last decades.

However, as explained in our response¹² to the public consultation on the draft ETS benchmarks for Phase IV:

- We are extremely concerned by the strong impacts that the drastic reduction of the fall-back benchmarks will have on crucial segments of the European aluminium value-chain, i.e. the alumina refining, which supplies raw materials to the primary industry; the recycling sector, delivering a big contribution to the circular economy; the heat treatment of aluminium products, dramatically increasing the GHG performance of a wide range of applications in transport, buildings etc.
- The recycling sector especially will be severely impacted by the drastic reduction of the fall-back benchmarks. The assessment on the improvement of the CO₂ reductions should be made only taking into account installations using natural gas, leaving out of the calculation those using other energy sources, such as biomass. This is because biomass is not currently available in an uniform manner across the energy system. This depends on several factors including national/regional population densities and the relative sizes of agriculture, forestry, marine and waste-based sectors.
- We would like to stress the importance of involving industrial sectors, via their European associations, since the beginning of the benchmark review process. This can ensure consistency in the approach, common interpretation and quality check of the data reported by industrial facilities to their respective national authorities, within the boundaries of confidentiality. Slight changes and interpretations in the data collected and reported by one national authority can have profound financial implications for the entirety of the sector. **Therefore, the Commission's proposal in the questionnaire to increase transparency of the process via mandatory publication of underlying data by industry is welcome. This however should go hand in hand with a thorough review of the data quality with industry experts.**
- The benchmark values for free allocation, applicable from 2021 and onwards and to be updated ahead of the second sub-phase of ETS phase IV, should be designed in a realistic way. They should reflect

¹⁰ See [here](#) our response to the EU Public Consultation Questionnaire (October 2020)

¹¹ See [here](#) Annex I to Delegated Regulation (EU) 2019/331

¹² See [here](#) our response on the ETS Benchmark values for free allocation for the period 2021-2025

technological challenges, feasibility costs and existing and tested business models. The transition costs for existing plants are considerable. Therefore, any new breakthrough technology implementation, as small technology pilots, should not impact the benchmark level for all existing plants within few years.

With regards to indirect costs compensation, the existing framework of ETS indirect costs compensation should remain in place. The new ETS Guidelines adopted last year¹³ represent the most optimal way to protect aluminium producers against increased electricity prices due to higher CO₂ costs passed on in their electricity bill. They contain prudent, coherent, and well-targeted measures to mitigate carbon leakage in our sector. Allowing for 75% stable aid across the entirety of ETS Phase IV and the possibility of a more targeted approach for those sectors like Aluminium that are the most exposed to carbon and investment leakage is very much necessary¹⁴. It is also crucial to mention that due to the marginal pricing system¹⁵ applied in European power markets, **the decarbonisation of the electricity system will not lead to a proportionate reduction in the indirect costs faced by consumers.** Indirect costs are not directly correlated with indirect emissions, **and indirect costs will continue to play an important role in setting European electricity prices for as long as any carbon-emitting power plants continue to operate. This makes it even more important to ensure a robust scheme for indirect cost compensation.**

Extension of ETS to road transport & buildings

The Commission's 2030 Targets Plan Impact Assessment and the ETS reform questionnaire consider the possibility of applying emission trading to road transport and buildings.

It is important to stress that building and transport sectors have different CO₂ abatement costs, elasticities and risks of carbon leakage as well as limited or none exposure to international competition compared to energy-intensive industries.

Their inclusion in the ETS system is, therefore, expected to drive carbon prices up substantially. This would exacerbate carbon costs and carbon leakage risks for sectors exposed to international competition. Many of the vehicle efficiency technologies that will be needed to reach the industry targets are equivalent to a carbon price of well above €250 per tonne CO₂¹⁶. Further, there are no monitoring and verification standards available for these sectors, so it is hard to know at this stage what the exact abatement cost will be.

Therefore, if emission trading is extended to other sectors, it is important that these remain separate systems, with no interaction in the start-up years. A potential linking could be considered over time but a timeframe for this potential integration should not be already integrated into the ETS Directive, given the uncertainties and risks outlined above.

Revision of the Market Stability Reserve (MSR)

From our experience, The MSR has not delivered on its main objective as it has mainly worked as an imbalanced demand-supply instrument, rather than a stability instrument. The present thresholds are set due to foreseen power sector hedging. Due to expectation of lower hedging volume by the power sector, versus increased hedging from

¹³ See [here](#) the Commissions new Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post-2021

¹⁴ See [here](#) our position paper on the draft ETS Guidelines, March 2020

¹⁵ For more on marginal pricing see [EC Impact assessment SWD](#) on EU Electricity Markets reform (30.11.2016) and [EC Impact assessment Report](#) on 2012 State Aid Guidelines on indirect costs 22.05.2012

¹⁶ See [here](#) ACEA paper "Paving the way to carbon neutral transport" January 2020

industry, we recommend to keep the present thresholds. It is instead not yet possible to assess if the MSR intake rate should be modified. This will depend on the impact of other instruments on the market.

Overall, the MSR has functioned as an additional cap reduction instrument, de-facto artificially increasing the CO₂ price, both in an oversupplied market and in a short market.

Therefore, to improve the functioning, the invalidation clause starting in 2023, must be reviewed putting aside part of the ready to be invalidated EUAs.

These put aside EUAs should be differentiated due to different nature. Some of them i.e. those accumulated due to economic downturn - should be brought them back into the market to avoid CSCF in Phase 4 and to add into the NER if needed (see below).

Finally, EUA allowances from aviation should also be taken into account for the calculation of the ETS Surplus.

An MSR fit for green industrial growth

The new 2030 target will put the current system of free allocation under considerable pressure, increasing exponentially the risk to trigger the cross sectorial correction factor (CSCF). Therefore, the revision must ensure improved carbon leakage protection through total avoidance of the CSCF in Phase 4.

Despite the Commission stated in its 2030 Climate Target Plan Impact Assessment¹⁷ that the CSCF risk is small even with an at least 55% target, several studies¹⁸ conclude that a 55% target could trigger a significant CSCF of -35% compared to the current 2030 target. It is crucial that the new ETS target does not lead to a situation where installations performing at benchmark level face any carbon cost. It is vital that the higher ambition does not result in unbearable EUA price for industries.

Adjusting the Market Stability Reserve (MSR), while remaining within the ETS cap, can be a way to avoid the CSCF. This would support emission reduction target and reduce carbon leakage risk.

We believe a robust review of the present MSR Regulation could serve the purpose, while supporting industrial growth.

First, we look at the MSR's initial intentions and structure and consider whether it has achieved its objectives so far:

- The MSR was developed as a stability instrument to tackle structural supply-demand imbalances. However, it has been functioning as an asymmetric balance correcting instrument, due to the high intake rate (24%), versus a low additional supply correction: 100 Mt per year and only for 4-years. This means that the potential supply withdrawals from the market, annually affecting the auction volume, are structurally much higher than the auction supply injections into the market. By removing allowances from the market when there is a surplus, the MSR is de-facto functioning as a yearly incremental re-basing of the cap over Phase 4.
- Due to its unbalanced structure, the MSR currently serves mainly as a price increase instrument both in an oversupplied market and in a short market and is counterproductive regarding avoiding carbon leakage and encouraging growth.
- Further, the current MSR regulation determines that from 2023 onwards the number of allowances held in the reserve will be limited to the auction volume of the previous year. Holdings above that amount will lose

¹⁷ See [p 112 EC Impact Assessment on 2030 Targets Plan Communication](#)

¹⁸ See [ECRST 2020 State of the EU ETS Report](#), April 2020

their validity (so-called invalidation clause). This invalidation will work as a permanent cap reduction instrument, de-facto increasing the ETS sectors contribution to the new higher climate target.

Based on the above, we believe the MSR has not fully achieved its objectives, hence some adjustments are required.

Our proposal

We recommend introducing more flexibility to the invalidation clause, to improve the MSR functioning as a better stability instrument. We propose that part of the ready-to be invalidated volume is set-aside and released later if necessary, to avoid the risk of CSCF during Phase 4. The set-aside volume should also be released in case needed to top up the New Entrants Reserve (NER), in order to stimulate and not punish industrial growth.

The surplus accumulated in the MSR has different nature. Today the MSR removes allowances from the market regardless of their nature (economic downturn, emission reductions, use of international credits). We believe we should differentiate between surplus accumulated due to economic downturn resulting in lower EUA demand, versus, for instance, accumulated EUA surplus due to international credits used for compliance reasons.

We propose to keep aside that surplus accumulated because of the economic downturn due to the COVID crisis and the financial crisis and protect such volume from the invalidation clause. These EUAs are highly needed surplus to cope with economic recovery and industrial growth.

The split between the two MSR surpluses need to be calculated on an annual basis. Hence, we suggest that the good surplus should be released back to the market in case needed to 1) avoid the CSCF and 2) to potentially adding volume to the NER.

This will ensure the ETS principle of free allocation based on updated benchmark levels is maintained as well as the cap reduction in accordance with the LRF. Furthermore, it will give flexibility and ensure the MSR functions as a better stability instrument also in case of economic growth.

It is important to note that re-injecting part of the set-aside allowances in the market would not interfere with the overall ETS cap as these are already existing allowances under the cap. It will also contribute to reducing global emissions by avoiding carbon intensive import. European climate regulation over the years has made European industries among the lowest carbon intensive industries in the world, if not the lowest.

Finally, re-establishing a supply-demand balance would ensure better carbon leakage protection where the need has been acknowledged; better serve the European Green Deal growth objectives and better protect best performers.

Revenues & low carbon support mechanisms

Once a stable financing base for indirect cost compensation schemes has been secured, ETS Revenues should thereafter be mainly used to support clean investments ETS sectors. For the revised ETS system to meet its carbon-neutrality targets sustainably, it is of utmost importance to increase the financial support for the development and market uptake of low-carbon technologies. As acknowledged by the Commission¹⁹ *“the carbon price alone will at the levels estimated for this decade – not sufficiently trigger the demonstration and deployment of clean technologies both in the transport and industry sector at scale [...] to deliver increased GHG reductions after 2030”*. The first call for applications for the Innovation fund demonstrated the mismatch between available resources and necessary support. Applications requested more than 20 times the available budget of 1.2 billion.

¹⁹ See [p 121](#) EC Impact Assessment on 2030 Targets Plan Communication

Most of the technologies available to decarbonise our value chain are still at a low Technological Readiness Level (TRL) and/or have very prohibitive costs, thus requiring significant financial investments that cannot be borne by individual companies alone. The time needed to develop a demonstrator (TRL7-8) and to fully deploy such technology in an industrial context (TRL 9) will depend on many factors, especially in relation to the future cost and characteristics of the renewable energy and energy costs²⁰.

Also, with increased carbon prices, indirect carbon costs for industry will increase and thus, it is essential that auction revenues be spent to provide adequate state aid for indirect carbon costs. If these revenues instead go to the EU budget, then, less resources would be available for lower-income Member States to provide compensation. While other sources can also be used, the ETS revenues are the main one in most countries.

Carbon removals & the climate mitigation benefits of aluminium recycling

Finally, the upcoming revision of the ETS framework should also consider the following additional aspects:

- **Negative emissions and carbon removals:** the 2030 Climate Plan recognises that to close the 2050 net-zero gap, investments in negative emissions are necessary and should be encouraged. These should be rewarded allowing efficient industries, with high transformation cost, to operate in a longer transition period. Therefore, the EU Commission should work on developing new regulatory instruments for financing and rewarding negative emissions. New emission abatement measures may include, for instance, measures allowing off site removal of emissions to be used to balance industries' remaining emissions under the ETS. While the Commission has announced an initiative as part of the "crosscutting actions" under the Circular Economy Action Plan, ²¹ this missing element should be considered as early as possible in the ETS reform. Dynamic allocation should also be reconsidered to ensure free allocation is better aligned with actual production level.
- **Achieving aluminium's full circular potential by 2030:** Europe should support our industry to achieve a 100% recycling rate for all products containing aluminium. Aluminium recycling process requires only 5 percent of the energy needed to produce the primary metal, thereby avoiding high CO₂ emissions by replacing carbon intensive aluminium imports. For this reason, the upcoming revision of the ETS should recognise the climate mitigation benefits of aluminium recycling and foresee better carbon leakage protection for recyclers so as to stimulate investments in new capacity.

Conclusions

While we recognise the immediate threat climate change poses to our ecosystems and the need to take action, it is even more important to ensure that these actions are actually capable of achieving their intended purpose (i.e. reducing global emissions). **To this end, it is crucial to preserve our value chain in Europe, which is already among the least carbon intensive in the world.** In other words, until other regions show the same climate ambition as Europe and comparable industries pay the same climate costs, **policymakers need to ensure that higher climate ambition is met with reciprocal measures to protect our industry, which is among the most, if not the most, exposed to carbon leakage.** Otherwise, reduced European production will only increase our dependency on primary imports with a significantly higher carbon footprint. This would lead to an increase in global emissions, i.e. the exact opposite effect from the one the Commission intends to achieve.

²⁰ For a quick overview of the existing technologies, see [our position on the EU Strategies on Energy Sector Integration & Hydrogen](#), June 2020

²¹ see [p. 20](#) European Commission circular economy action plan 2, March 2020

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