

Avoiding a backwards step

We have strong concerns on the latest proposals by the European Commission on the draft Sustainable Finance Delegated Regulation with the technical screening criteria for the climate mitigation and adaptation objectives. The proposals, circulated for Member States comment in the MSEG by Friday 26 March 2021, **represent one step backwards compared to the original draft text that went to public consultation last November.**

As previously explained¹, the average of the best 10% smelters must not be the main criteria deciding which primary aluminium smelter in Europe can qualify to the framework. Establishing the single direct emission threshold as the mandatory criteria is not the correct approach to evaluate the sustainability of aluminium production, as the main CO₂ footprint differentiator between installations is the indirect emissions, due to high electricity consumption in the production process.

Paradoxically, not even the most efficient and based on carbon-free electricity smelters in Europe would qualify. As a consequence, this would impact the competitiveness of the European primary production vis à vis international producers, which do not bear any carbon cost nor have ambitious decarbonisation objectives, despite having most often a significantly higher carbon footprint.

The November draft proposals represent a better solution. They allowed for some flexibility combining the efficiency of the process and the energy source. The use of a combined threshold better reflected the electricity-intensive nature of our processes and the technological improvements available today.

We therefore:

1. **Support the previous Commission proposal whereby the eligibility thresholds were based on a combined value for the direct and indirect emissions.** This better reflected the high-electro-intensity of our production process allowing the most efficient smelters with access to low carbon energy to qualify to the framework while providing the right incentives for decarbonization. A combined value is a better reflection of the activity's emissions.
2. Request to **include, as recommended by the TEG experts² the provision that investments aimed to achieve the thresholds should be considered eligible.**
3. **Request to change the thresholds for the carbon content of the electricity generation from the current 100g CO₂e/kW to 270g CO₂e/kWh.** This to reflect the actual European average electricity mix. Such stringent thresholds would label the majority of aluminium production in Europe as either not sustainable (climate mitigation) or

¹ See our [comments on the Draft Delegated Regulation \(December 2020\)](#) & our [reaction to the TEG Report \(March 2020\)](#) where we explain in detail why a single mandatory threshold linked to the ETS benchmark is not a correct and fair tool to assess the sustainability performance for primary aluminium in Europe. New ETS benchmark values are available [here](#) (15 March 2021)

² See their [Report](#) at p.172, March 2020

even significantly harming the environment (climate adaptation), even though their average carbon footprint (7 tCO₂/tAl, cradle to gate) is around two times lower than the global average and three times lower than the footprint of Chinese aluminium production.

The above approach must be applied to both the thresholds to be eligible under the Climate Mitigation Objectives and fulfil the Climate mitigation DNSH threshold under the Climate Adaptation Objective.

Please find in the table below the two different versions of the text since November and our proposed changes highlighted in grey (third column).

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CLIMATE MITIGATION OBJECTIVE TSC		
November Draft Delegated Act – Annex I	New text discussed in MSEG last 24 March	European Aluminium proposal
Substantial contribution to climate change mitigation		
<p>The activity manufactures one of the following:</p> <p>(a) primary aluminium where the sum of direct GHG emissions and indirect GHG emissions is lower than [xxx 145] tCO2 per tonne of aluminium manufactured;</p> <p>(b) secondary aluminium.</p> <p>Footnote 145: [The average value of the top 10% of installations based on the data collected in the context of establishing the EU ETS industrial benchmarks for the period of 2021-2026 and calculated in accordance with the methodology for setting the benchmarks set out in Directive 2003/87/EC plus the substantial contribution to climate change mitigation criterion for electricity generation (100gCO2/kWh) multiplied by the average energy efficiency of aluminium manufacturing (15.5 MWh/t Al)]</p>	<p>The activity manufactures one of the following:</p> <p>(a) primary aluminium where GHG emissions do not exceed [XXX97] tCO2 per ton of aluminium manufactured and where the economic activity complies with one of the following criteria until 2025 and with both of the following after 2025:</p> <p>(i) the average carbon intensity for the indirect GHG emissions does not exceed 100g CO2e/kWh;</p> <p>(ii) the electricity consumption for the manufacturing process does not exceed 15.5 MWh/t Al;</p> <p>(b) secondary aluminium.</p> <p>Footnote 97: [The average value of the top 10% of installations based on the data collected in the context of establishing the EU ETS industrial benchmarks for the period of 2021-2026 and calculated in accordance with the methodology for setting the benchmarks set out in Directive 2003/87/EC]</p>	<p>The activity manufactures one of the following:</p> <p>(a) primary aluminium where the sum of direct GHG emissions and indirect GHG emissions is lower than [xxx 145] tCO2 per tonne of aluminium manufactured;</p> <p>(b) secondary aluminium</p> <p>New “Mitigation measures are eligible provided they are incorporated into a single investment plan within a determined time frame (5 or 10 years) that outlines how each of the measures in combination with others will in combination enable the activity to meet the threshold defined</p> <p>Footnote 145: [The average value of the top 10% of installations based on the data collected in the context of establishing the EU ETS industrial benchmarks for the period of 2021-2026 and calculated in accordance with the methodology for setting the benchmarks set out in Directive 2003/87/EC plus the substantial contribution to climate change mitigation criterion for electricity generation (100g-270g CO2/kWh) multiplied by the average energy efficiency of aluminium manufacturing (15.5 MWh/t Al)]</p> <p style="text-align: center;">JUSTIFICATION / EXPLANATION</p> <p>Under the new proposal for Member States’ comment, basically no smelter in Europe can qualify to the framework. This is a clear discrimination against a sector that is fundamental for the decarbonization of the society. We therefore support the previous Commission proposal which defined the threshold for the combined direct and indirect emissions, and we request for the re-inclusion of the provision in the TEG Report whereby investments aimed to achieve the thresholds should be eligible. This would better reflect the high electro-intensity of our production process, while providing the right incentives to invest in decarbonization. This allowed for some flexibility combining the efficiency of the process and the energy source. We also propose 270 gCO2 as the criteria for electricity generation, reflecting the European average of the carbon content of the electricity mix.</p>

CLIMATE ADAPTATION - Do no significant harm criteria (DNSH)

November Draft Delegated Act – Annex II	New text discussed in MSEG last 24 March	European Aluminium proposal
Climate change mitigation DNSH		
<p>The activity manufactures one of the following:</p> <p>(a) primary aluminium where the sum of direct greenhouse gas emissions and indirect greenhouse gas emissions is lower than [xxx 168] per tonne of aluminium manufactured.</p> <p>(b) secondary aluminium.</p> <p>Footnote 168: [The median value of the data collected in the context of establishing the EU ETS industrial benchmarks for the period of 2021-2026 plus the DNSH to climate change mitigation criterion for electricity generation (270gCO₂/kWh) multiplied by the average energy efficiency of aluminium manufacturing (15.5 MWh/t Al)].</p>	<p>The activity manufactures one of the following:</p> <p>(a) primary aluminium where the GHG emissions do not exceed [XXX 139] tCO₂ per ton of aluminium manufactured and where the economic activity complies with one of the following criteria until 2025 and with both of the following after 2025:</p> <p>(i) the indirect GHG emissions do not exceed 270g CO₂e/kWh;</p> <p>(ii) the electricity consumption for the manufacturing process does not exceed 15.5 MWh/t Al;</p> <p>(b) secondary aluminium.</p> <p>Footnote 139: [The median value of the data collected in the context of establishing the EU ETS industrial benchmarks for the period of 2021-2026.]</p>	<p>The activity manufactures one of the following:</p> <p>(a) primary aluminium where the sum of direct greenhouse gas emissions and indirect greenhouse gas emissions is lower than [xxx 168] per tonne of aluminium manufactured.</p> <p>(b) secondary aluminium.</p> <p>New “Mitigation measures are eligible provided they are incorporated into a single investment plan within a determined time frame (5 or 10 years) that outlines how each of the measures in combination with others will in combination enable the activity to meet the threshold defined</p> <p>Footnote 168: [The median value of the data collected in the context of establishing the EU ETS industrial benchmarks for the period of 2021-2026 plus the DNSH to climate change mitigation criterion for electricity generation (270gCO₂/kWh) multiplied by the average energy efficiency of aluminium manufacturing (15.5 MWh/t Al)].</p> <p style="text-align: center;">JUSTIFICATION/EXPLANATION</p> <p>We request to go back to the Commission’s previous proposal which went to public consultation which foresaw a combined threshold and introduce the TEG Recommendation that investments aimed to achieve the thresholds should be eligible.</p>