

CBAM & Indirect Emissions: An impossible challenge?

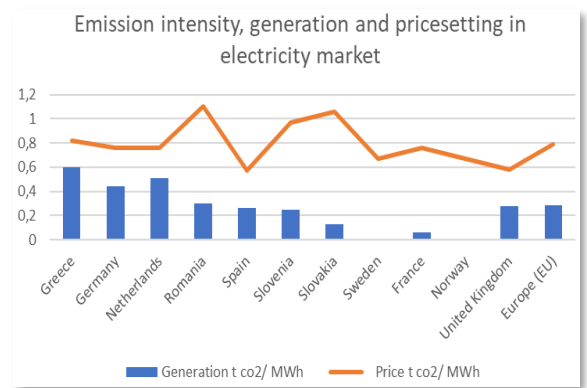
Why a CBAM on indirect emissions will harm European low-carbon aluminium production

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European Aluminium supports the EU Commission’s proposal of not including indirect emissions in the CBAM. Including them will put at risk low-carbon aluminium production in Europe and not prevent high-carbon production, leading to an overall increase in global emissions. A CBAM on *indirect emissions* cannot even out the *indirect emissions costs* European industry is facing due to the specific electricity market design in Europe.

- The carbon footprint of producing primary aluminium in Europe (6.7 tCO₂/t Al) is only 1/3 of global average. This is thanks to the lower carbon intensity of the average European electricity mix. More renewable and other low-carbon electricity is used for aluminium production in Europe. For example, in the Nordics, Slovakia and France, the *indirect emissions* from aluminium production are close to zero, unmatched in the global picture.
- European industries nevertheless pay for the *cost* of carbon emissions in the electricity system through the power price. This is because the power plant that sets the price in the EU marginal pricing system is often a natural gas or coal-fired power plant. This cost remains as long as these power plants are considered the marginal producers.
- The **main cause of carbon leakage for aluminium producers** is that indirect emissions *costs* cannot be passed on to consumers as aluminium’s price is set by the global market. Thus, European aluminium producers cannot effectively compete, even under a CBAM pricing system, and become unprofitable compared to non-EU competitors.
- To prevent carbon leakage, Member States can compensate parts of the indirect costs under EU State Aid rules. **This plays an irreplaceable role in preserving European producers’ global competitiveness.**
- If CBAM on indirect emissions is to replace indirect cost compensation, it will harm producers’ competitiveness.
- This is because indirect emissions do not correlate with indirect costs. **Indirect costs exceed the actual indirect emissions** because of the marginal pricing system, **even for zero-carbon electricity. Thus, EU producers can never be effectively protected on that basis.**



	Norway	France	Middle East	Russia	
Power source	Hydro	Grid/Nuclear	Natural gas	Hydro	Grid
Ton CO ₂ per MWh electricity*	0	0,04	0,4	0	0,38
Indirect emissions of CO ₂ per ton aluminium**	0	0,6	5,9	0	5,7
Power price increase per €/t CO ₂	0,67	0,76	0	0	0
Cost w/CBAM if CO ₂ EUA = 60 €/ton	603 €	684 €	360 €	0 €	342 €

*Grid electricity mix from Bilans GES ADEME, French Environment Agency **Assuming a power consumption of 15MWh/t Al

Concluding, a CBAM on indirect emissions will:

- I. Give aluminium produced from zero-/low-carbon electricity in Europe a higher indirect carbon cost than aluminium produced from fossil fuels in third countries, where the electricity pricing system is different (see table above with the example of a Norwegian or French producer).
- II. Lead to source shifting of low-carbon imports to the EU while the carbon-intensive products will be sold elsewhere, thus providing no incentive for global emission reductions and jeopardizing producers’ competitiveness alongside Europe’s strategic autonomy in raw materials supply.

We therefore urge policymakers that a CBAM on aluminium is not applied to indirect emissions before the EU has a close to carbon-free electricity system!