

## INTRODUCTION

Energy is aluminium's lifeblood. The global gas shortage and consequential energy prices crisis in Europe is severely affecting the European aluminium value chain. We welcome the Commission's readiness to support EU Member States to navigate such crisis and its proposed tools to mitigate the negative impacts on consumers.

But this toolbox is not enough. We believe a **thorough reflection is necessary on the recently published fit for 55% package<sup>1</sup> and the need of strengthened measures to protect European strategic and circular industries like aluminium.**

**This crisis shows European industries' exposure to costs stemming from the clean energy transition and the need to have in place adequate emergency systems capable of providing relief against sudden shocks in global demand and supply of crucial raw materials<sup>2</sup> or energy inputs for production processes.**

A surge in European energy prices is a real-world threat to industry because access to affordable energy directly impacts the competitiveness of European aluminium producers. **Electricity costs represent 37% of the total production costs of primary aluminium smelters.** Europe already has the highest electricity prices compared to its main competitors (Russia, UAE and China), as a result of increased costs under the EU Emissions Trading Scheme (ETS) and the greening of power generation systems. European aluminium producers cannot pass on these extra carbon costs without losing significant market share because aluminium is globally priced at the London Metal Exchange (LME).

**This crisis is therefore another wake up call for European governments and institutions, highlighting the need for enhanced carbon leakage protection for those trade-exposed industries competing on global markets that are crucial for securing Europe's resilience in global supply chains and the bloc's strategic autonomy.**

In this statement we outline:

- The devastating impact of the energy crisis on primary aluminium producers in Europe;
- A set of policy proposals to protect and grow low-carbon aluminium production in Europe.

**We trust our recommendations will be carefully considered at the next European Council Summit scheduled for 21-22 October and we stand ready to work with all concerned stakeholders to find effective and sustainable solutions to preserve our value chain in Europe.**

## The impact of the energy crisis on European producers

For the aluminium industry, this energy crisis is nothing new: despite growing aluminium demand globally and significant investments in other parts of the world, the EU has lost more than 30 per cent of its primary production capacity since 2008, due to high energy costs and a challenging regulatory environment that made these smelters uncompetitive. The last investments in smelting capacity date back to the 1990s.

Therefore, ETS indirect costs compensation and shielding against cost increases directly or indirectly linked with the greening of power generation systems is crucial for aluminium producers in Europe. Almost all EU Member States have to date adopted or are yet to adopt a scheme to support their aluminium producers, in line with the revised EU ETS Guidelines, which are yet to be fully finalised by the European Commission. The need for indirect carbon cost

<sup>1</sup> See [our proposals](#) for a low-carbon, circular and green aluminium industry in Europe, May 2021

<sup>2</sup> See [here](#) European Aluminium call on EU Policymakers to address imminent supply shortage of Chinese magnesium, 27 September 2021

compensation also highlights why the proposed EU Carbon Border Adjustment Mechanisms (CBAM) should not be applied to indirect emissions if it were to be applied to aluminium<sup>3</sup>.

In terms of concrete impacts:

- **This crisis means several dozen millions of euros on aluminium producers' electricity bill:** Electricity prices have gone up much stronger (>300%) than aluminium prices (50%). Since 2020, where prices fluctuated around 40 €/MWh, they have now quadrupled across Europe, reaching today 3-digit figures, sometimes even above 200 €/MWh. To put that into financial terms, for an aluminium producer consuming 14.5 MWh per tonne of aluminium produced, electricity prices will have quadrupled from 580 €/tonne to over 2,000 €/tonne: more than 80% of today's LME sales price for aluminium, which is itself at a six-year high.
- **Some companies have already announced reduced production:**
  - **In The Netherlands**, the delay by the European Commission in finalising the ETS Guidelines is preventing EU Member States from deciding on their national compensation schemes, which in turn prevents companies from hedging power prices and making long-term planning for their decarbonisation investments. Aluminium primary producer Aldel announced<sup>4</sup> that their smelter will remain idled from October 11 until at least early 2022 unless the government takes action.
  - In **Slovenia**, aluminium producer Talum has idled 24 electrolysis cells and plans to reduce planned production for next year by 50%.
  - In **Slovakia** aluminium producer Slovalco has already<sup>5</sup> idled up to 10% of installed smelting capacity.
  - **In other countries in Europe**, producers are equally considering reducing planned production in order to protect business viability and maintain operations.

In the long term, if prices remain high and volatile, producers will not be able to make any investments towards decarbonization and further electrification.

## A toolbox to preserve and grow low-carbon European aluminium production

To prevent further reduction of production capacity in Europe and to ensure continuous investments in decarbonisation and circularity, the European Commission and EU Member States must:

- **Further incentivize interruptibility schemes for flexible consumers** (as in the past in Spain and Italy with >100,000 €/MW service fees).
- The European Commission must **swiftly finalise the ETS Guidelines, while EU Member States must make their full use to protect aluminium producers** against the indirect costs of the ETS passed on by power suppliers in their final electricity bill. Almost all European countries have in place compensation schemes to protect aluminium producers, which are significantly exposed to competition from producers operating in other regions of the world and who do not face the same costs we face in Europe. Furthermore, one idea to explore could be to move towards a faster system to compensate such costs. Under the current regime, European smelters will receive in 2022 a compensation based on 2021 CO<sub>2</sub> prices. Such delay puts an enormous pressure on smelters, which need long-term visibility in terms of carbon costs so as to plan their investments.

<sup>3</sup> See European Aluminium [preliminary views on draft CBAM Regulation](#) and [1 pager on indirect emissions vs emissions costs](#), 7 October 2021

<sup>4</sup> See [article](#) from Reuters "Dutch aluminium maker Aldel to halt output due to power prices", 8 October 2021

<sup>5</sup> See [article](#) "Slovak aluminium producer cuts production, layoffs are not planned yet", 1 October 2021

- **Protect and support energy intensive users from decarbonization costs which other global producers do not face so as to accelerate investments in clean technologies and accelerate the green transition.** This can be achieved through **allowing reductions from all decarbonization surcharges under the proposed draft State Aid Guidelines for Climate, Energy and Environment (CEEAG)<sup>6</sup>.**
- **Set up mechanisms to facilitate the accessibility and consumption of decarbonized energy at globally competitive prices for energy-intensive consumers.** This can be done either via national financial guarantees to support the uptake of Renewable Energy PPAs or supporting investments in renewable energy capacity.
- **Develop a state aid framework that provides clear conditions and rules allowing Member States to take quick actions during high energy prices crises that are expected to happen again.** This framework would provide certainty and confidence for national authorities that the measures taken to help their most exposed industrial sectors are in line with competition rules.
- **Encourage long-term contracting of electricity as it has the potential of hedging the price volatility.** To create green industrial growth, industries subject to carbon leakage **must be shielded from increased costs caused by the transformation to a low-carbon energy system.** Mechanisms to facilitate the uptake of power-purchase agreements (PPAs) and reduce the costs of consuming renewable energy for industrial consumers like the green pool<sup>7</sup> should be further promoted across the Union.

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<sup>6</sup> See European Aluminium [consultation response](#) on draft EU State Aid Guidelines for Climate, Environmental protection, and Energy post 2020 (CEEAG), August 2021

<sup>7</sup> Please find [here](#) the detailed green pool proposal by ENERVIS, March 2021,