



CBAM: an *“unfit for 55%”* measure for Aluminium?

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European Aluminium in a snapshot

85+

members

approx. **600** plants in
30 European countries (EU 27,
EFTA, UK and Turkey)

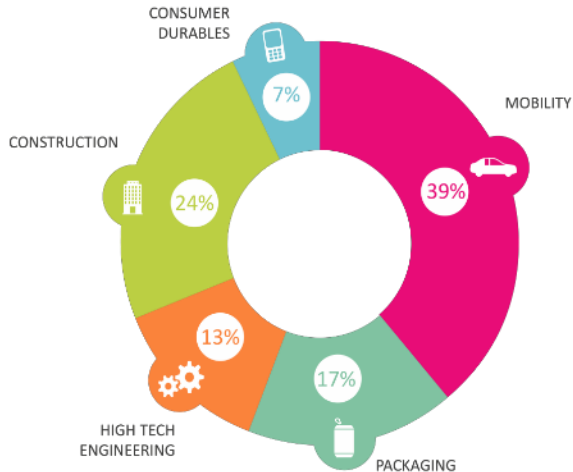
1 million + direct and
indirect jobs across Europe's
value chain



Recyclability

5% of
original energy
consumption

An innovative value chain serving EU key markets



Europe produces

16%

of worldwide aluminium,
half of which from
recycled sources

100%

Permanent material

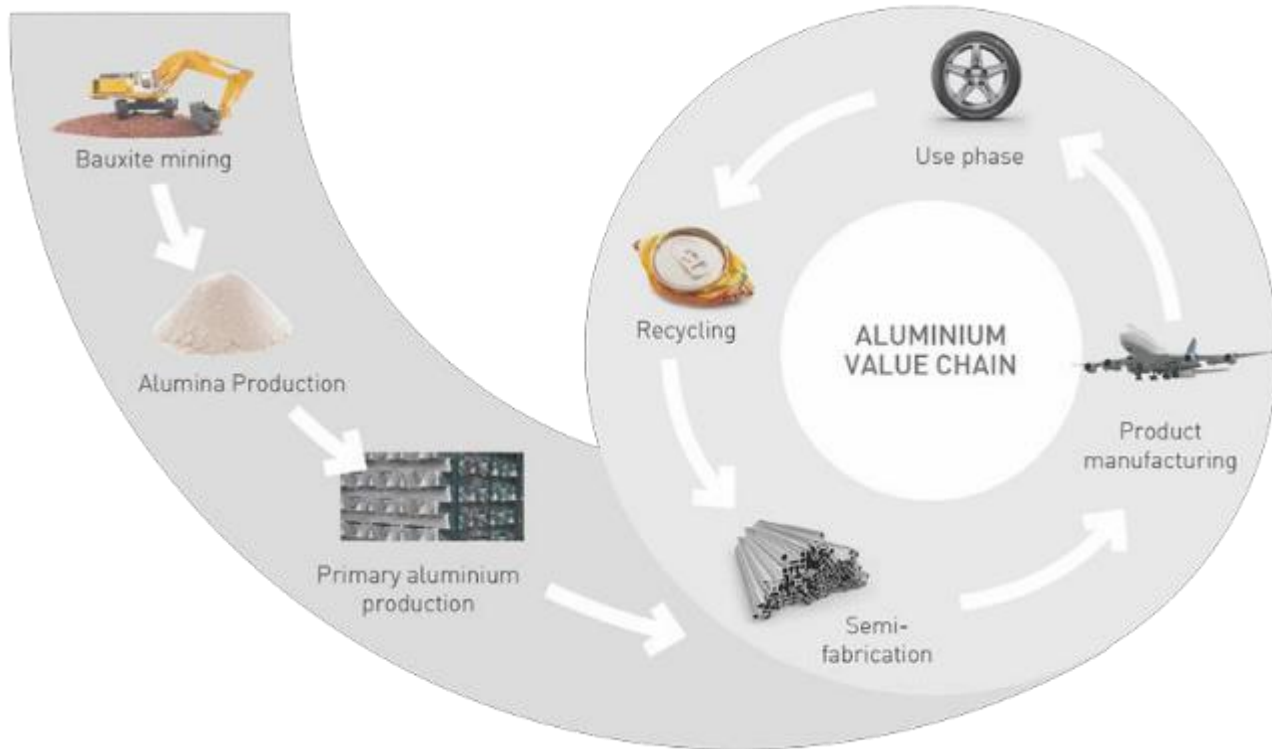
Aluminium properties do
not change during use and
following repeated
recycling into new products

75% of
all aluminium
ever produced is
still in use today

90%

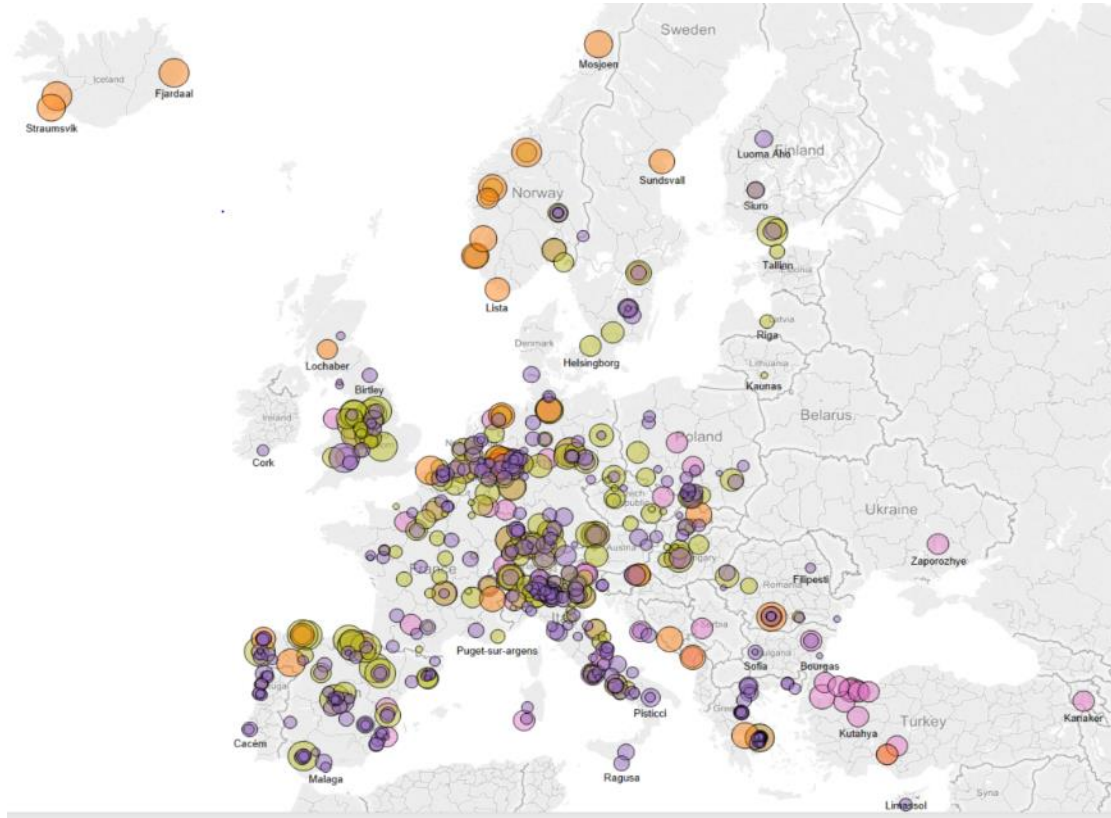
of aluminium is
recycled in
construction and
automotive in
Europe

／ The aluminium value chain: a circular economy



／ A cluster-driven European industry

More than **600**
aluminium plants
(by installed
capacity*)

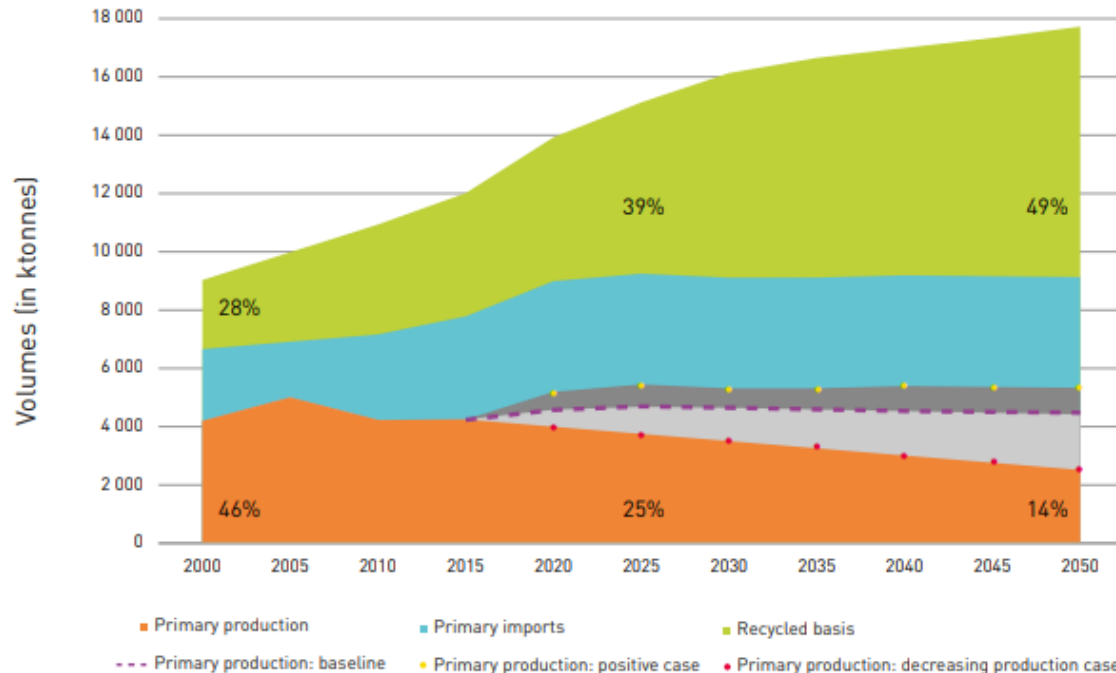


* Source : European Aluminium Statistics

Increasing demand and import dependency

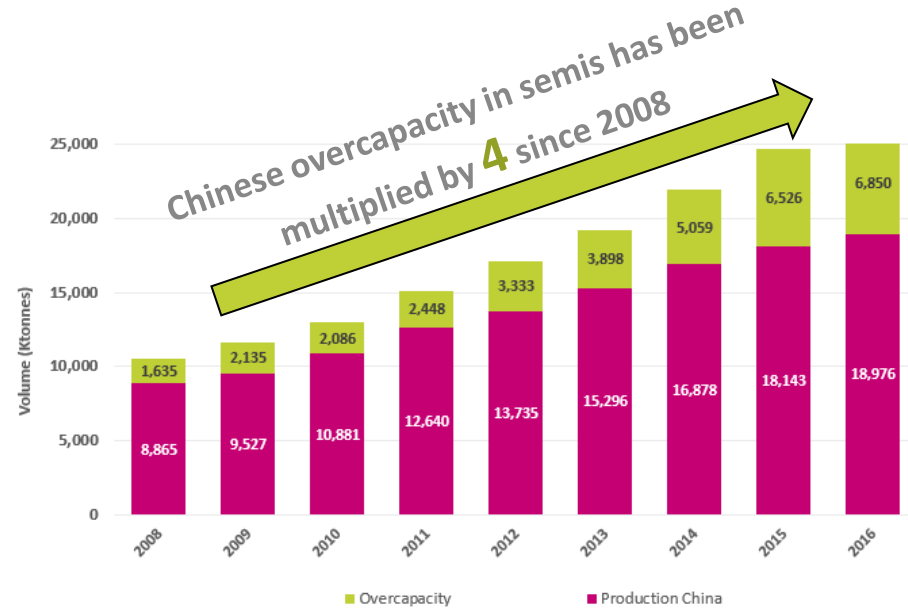
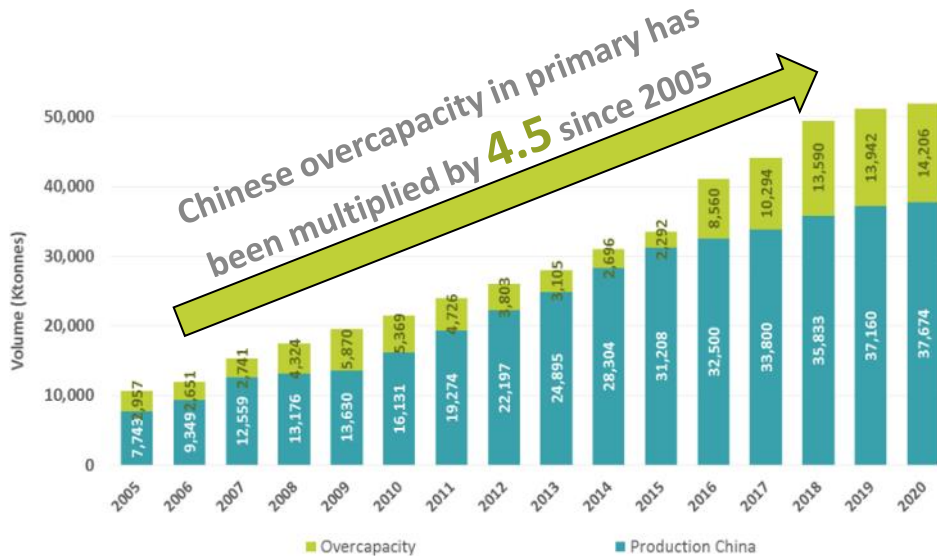
European aluminium demand for aluminium ingot (2000 - 2050)

Including a decreasing production case, a positive and a baseline scenario for the primary production in Europe (i.e. EU28+EFTA)



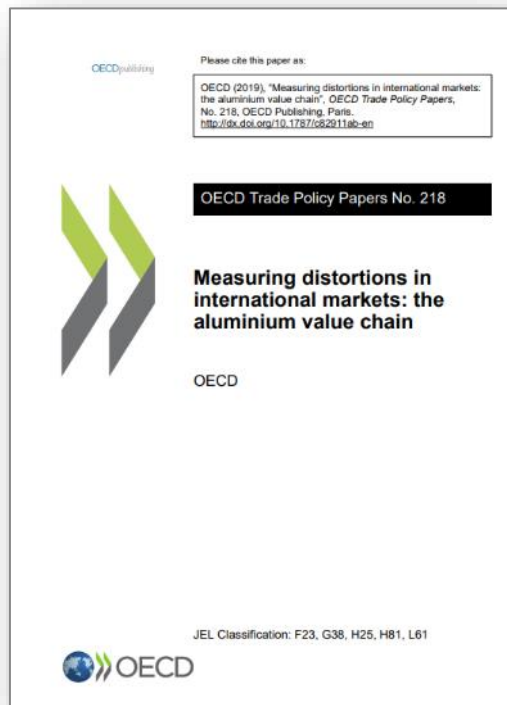
Aluminium: a strategic industry for China

- In 15 years, **China's primary production increased from 11% to 57%** of worldwide production
- **Chinese overcapacity in primary is 14 M t, i.e. 5 times bigger than EU production**
- In the past 5 years, **China exports to the EU has more doubled** and in particular for flat rolled products (semis)
- A [2019 report by the OECD](#) shows that 85% of global documented subsidies went to just 5 Chinese firms



Source: European Aluminium

OECD report recognises distortions of competition



- The OECD report recognises **that non-market forces are responsible** for some of the recent increases in aluminium smelting capacities with impact throughout the value chain
- 17 international companies received up to USD 70 billion in different forms of support over the 2013-2017 period
- 85% of the documented subsidies went to just 5 Chinese firms
- The report acknowledges *“excess capacity in the sector that is depressing global aluminium prices and threatening the viability of producers worldwide”*

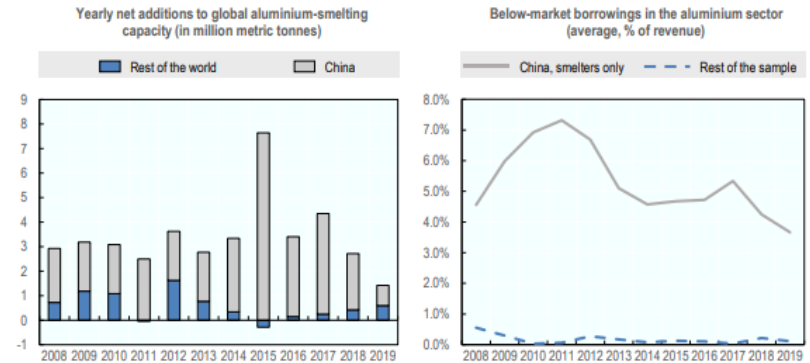
／ New OECD Report on subsidised over-capacity

Last 12 May, the OECD released a [new report](#) on « Government support below market finance ». It analysed 306 of the largest manufacturing firms in 13 industrial sectors, covering the period 2005-19.

Key take-aways for Aluminium:

- Below-market finance **has been found to play a major role in favoring the vast majority of Chinese aluminium producers**
- **China's support to have ranged between 4% and 7% of the annual revenue of these firms** (other firms in the sample, only 0.2% of their annual revenue)

Figure 22. China accounts for the vast majority of net capacity additions and below market borrowings in the aluminium sector

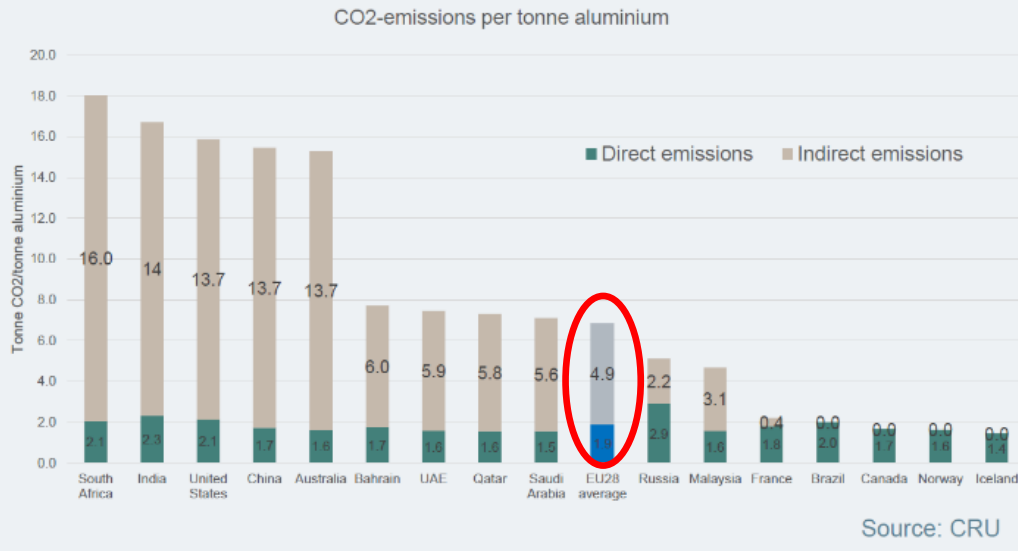


Note: Data on below-market borrowings shown above for China only concern aluminium smelters and do not include producers of semi-fabricated products of aluminium, which are otherwise counted in total below-market borrowings for the aluminium sector elsewhere in this report. Capacity data for 2018-19 are estimates.

Source: European Aluminium (capacity) and OECD research.

Primary Aluminium emissions

Aluminium producers across the world vary greatly in their CO2 Emissions...

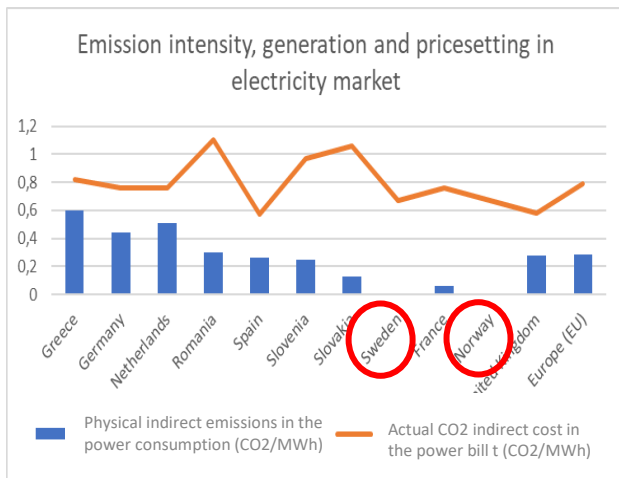


European production is already the least carbon intensive globally

Indirect emissions vs indirect CO2 emissions' costs

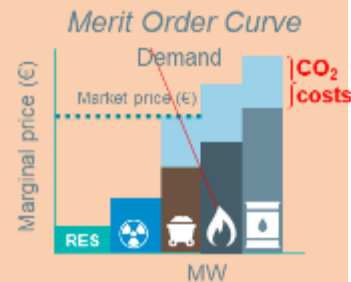
The actual power GHG footprint is very different from the intensity of the price setting technology in the power market (→ indirect cost). These costs vary in Europe between regions/Member States.

There is no unique indirect cost



Nordic electricity market example

The Nordic electricity market, has almost 100% renewable electricity, due to European electricity market dynamics, Nordic metals still face a price effect of CO2 on electricity of 0.67.*



This means that every time the carbon price increases by €1/tCO2, the power price increases by €0.67/MWh, even if we consume carbon-free electricity

For more on marginal pricing see:

- EC [Impact assessment SWD](#) on EU Electricity Markets reform (30/11/2016)
- EC [Impact assessment Report](#) on Revised ETS State Aid Guidelines on indirect costs (21/09/2012) & [ETS Revision impact assessment](#) p. 507 (14 July 2021)

Indirect costs of a Norwegian vs Russian smelter



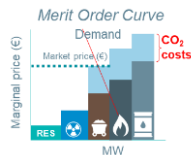
Norwegian smelter

consumes hydro power
i.e. **~0 indirect emissions**



Russian smelter

consumes hydro power
i.e. **~0 indirect emissions**



But due to the marginal pricing system in Europe, the Norwegian smelter has a pass-through of **0.67** (i.e. extra carbon costs per MWh of electricity)



The average electricity intensity is not used and instead, the Russian smelter is able to claim an individual assessment. Thus, the CBAM levy would be **0**.

The scope 2 **costs*** of the Norwegian smelter =

503 EUR/t Al



0 EUR/t Al

The scope 2 **costs*** of an exporter from Russia =

$$(15 \text{ MWh/t Al} \times 0.67 \text{ CO}_2\text{t/MWh} \times 50 \text{ EUR/CO}_2\text{t})$$

$$(15 \text{ MWh/t Al} \times 0 \text{ CO}_2\text{t/MWh} \times 50 \text{ EUR/CO}_2\text{t})$$

*Assuming 15MWh of power consumption per tonne of aluminium and a CO2 price of €50

Initial views on the draft Regulation

- CBAM doesn't seem fit for the characteristics of the aluminium value chain. We support a "cautious" approach to initially introduce the CBAM cost on direct emissions
- As of 2026, producers of semi/manufactured aluminium products will face a cost increase due the reduced free allocation and CBAM cost on imports
- Many details still missing and lack of regulatory certainty:
 - What exact impact across the value chain?
 - What will happen after 2030 and beyond?
 - How to align CN codes with NACE codes, used for the free allocations?
 - How to report indirect emissions in the transition period (2023-2025)?

Our initial 4 policy asks for discussion today

Aluminium should have not been included in the pilot

Our 4 conditions for CBAM support:



An export adjustment & tested initially on direct emissions

Account for indirect emissions being different from **indirect costs**



Anti-circumvention measures need to be strengthened

Risk of source-shifting of low-c aluminium to Europe & free riding via false declarations



Complementarity of CBAM & free allocation

Need to align different CN & NACE codes for products under the CBAM



Product scope should be broadened

Many imports fall outside CBAM and further downstream products would be imported to avoid it

／ For more information on our position on CBAM

- [Press release](#) *“European Aluminium warns against unintended effects of aluminium inclusion in Commission’s EU Carbon Border Adjustment Mechanism proposal”* – 14 July 2021
- [Non paper](#) on excise duty tax design - February 2021
- [Policy Note](#) - EC Public Consultation questionnaire on the EU Carbon Border Adjustment Mechanism (CBAM) – October 2020



Thank you!