

European Aluminium Position on ETS Phase IV

Why should the Council secure the proper level of compensation for an industry like aluminium?

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What's next after ENVI Vote?

In the light of European Parliament's ENVI Committee vote, we encourage all national governments to improve the proposed indirect carbon compensation scheme. While the compromise adopted by the ENVI Committee shifts from a voluntary compensation system to the so-called hybrid model (i.e. EU centralized scheme combined with voluntary national top up), the maximum level of support suggested in the document is seriously threatening the future of the aluminium industry.

Any compensation scheme for indirect costs would only be truly effective in preventing future carbon and investment leakage in the aluminium industry if it allows for full compensation, **up to benchmark levels** for the entire period¹. The incentive to reduce emissions is kept by the benchmark definition. Creating a common EU-driven support with the possibility for Member States to top up this scheme through state aid could be a viable option, provided that the support is adequate and will not automatically decrease.

Today and ENVI Proposal

Currently, the eligible cost is capped at 85% in 2013 decreasing to 75% in 2020². If the state aid regime post-2020 (Phase IV) is not adequately adjusted - when adopting the new State Aid Guidelines - it is likely to see a partial and **digressive** approach **limiting maximum national compensation by 2030 at a level that will put the whole European industry at major risk³.**

Such a scenario will discourage investments by punishing all the European smelters without taking into consideration their low carbon footprint and their contribution to global climate goals. It would eventually discourage further investments in technological improvements as even the best performing installations would face unaffordable costs.

On top of this, this will definitively go against the re-industrialization of Europe. Given the growing demand for aluminium in many sectors, especially driven by the development of low carbon solutions, aluminium would enable sustainable growth in Europe.

Last but not least, less support will create a larger gap between European efficient smelters (with significant and increasing shares of renewable energy) and non-European primary production using on electricity based on fossil fuels (i.e. China 90% from coal fired-plants). Europe will further increase primary aluminium dependency from third countries and, ultimately, import CO2 emissions together with primary metal⁴.

1 European Council conclusion October 2014: No undue cost for best performing installations

2 Commission's Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post-2012

3 With continued decreasing compensation, combined with increasing ETS price, the net cost after compensation could be more than 10% of the sales price.

4 EU already imports more than half of the aluminium it needs.

Our proposal

European Aluminium is in favor of ambitious climate policies and pricing of CO2 emissions, provided that a level-playing field exists for industries competing on global markets. As long as this is not the case, any policy strengthening the allowance price while simultaneously reducing indirect compensation, will undermine the competitiveness of the European aluminium industry, and discourage future investments.

Any compensation system will only be effective in preventing future carbon and investment leakage in the aluminium industry if it:

- 1- Allows non-declining measures to ensure no undue costs for best performers throughout the entire period;**
- 2- Endorses a centralized arrangement at Union level for indirect carbon costs to reduce negative effects on internal market, combined with additional support at Member State level;**
- 3- Is aligned with the most updated and relevant state aid regime.**

The definition and implementation of such a system will contribute to sustain primary production and boost the entire EU value chain of aluminium for critical sectors such as aerospace, packaging, buildings, electronics, cars and multiple applications. Considering the GHG footprint of European players on the global market, this will also contribute to EU's climate plans and targets by 2030 and 2050.

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