

Report warns of quasi-end of European aluminium production if EU CBAM Regulation includes indirect emissions

Brussels, 31 May 2022 – A new report for the European aluminium industry by the independent commodity analyst CRU highlights the negative impacts of a wrongly designed Carbon Border Adjustment Measure (CBAM). The study shows that European aluminium smelters will become cost uncompetitive if the CBAM covers indirect emissions and existing carbon leakage measures are removed. The report also anticipates costs for aluminium production will rise by 24% to 31% and provides insights into the complexities of designing a circumvention-proof CBAM Regulation.

The study *Assessment of European Carbon Border Adjustment Mechanism Regulation*, conducted by business intelligence analysts [CRU international](#) on behalf of [European Aluminium](#), models the impact of the CBAM on primary aluminium and selected downstream products under different scenarios, including the phase-in of indirect emissions in the CBAM and the phase-out of EU carbon leakage measures. Given the unique challenges aluminium faces as an electricity-intensive industry, the report highlights that it is crucial for the CBAM to be initially tested only on direct emissions, as originally intended by the European Commission.

“Our study reveals that under the current CBAM proposal, fossil fuel-based aluminium producers in third countries will pay less indirect carbon costs than European producers using decarbonised power because of the EU’s unique electricity market design. That’s why the inclusion of indirect emissions in a CBAM will not necessarily improve the competitiveness of European smelters. We also quantified and modelled the significant expected cost increases down the value chain for the most used aluminium semi-finished products,” said Zaid Aljanabi, Head of Aluminium at CRU consulting.

The study shows that European producers’ higher indirect carbon costs under the Emissions Trading System (ETS) mean primary aluminium imports for semi-fabrication could increase up to 43% and total value add¹ loss of up to 77% in the event a large share of EU production is replaced. Furthermore, if indirect emissions are included in the CBAM and carbon leakage measures are fully phased out, European smelters will lose competitiveness as they will continue to face higher indirect carbon costs than importers due to the EU ETS. All this is in the context of a historic production loss of over 900,000 tonnes in 2021-2022.

According to the study, the current CBAM proposal can further unlevel the playing field between European and non-European aluminium producers. Besides higher carbon costs for European companies, the study also points to high circumvention risks and the challenges of implementing the CBAM for the highly complex aluminium value chain.

“The proposed amendments in the European Parliament to accelerate the inclusion of indirect emissions in the CBAM will have a destructive impact on the European aluminium value chain,” warned Paul Voss, Director General of European Aluminium.

“While such initiatives are undoubtedly well-intentioned, their practical effect would be hugely damaging. The CBAM must be first tested and carefully reviewed before the inclusion of indirect emissions is considered. Ideally, this should

¹ The value-add is the difference between the price of a product or service and the cost of producing it.

be envisaged after 2030, when the European power grid is sufficiently decarbonised. Until then, we need to preserve, where applicable, existing national ETS compensation schemes, reinforce anti-circumvention measures to protect our competitiveness, and understand the real impact the CBAM has on downstream industries.”

About European Aluminium:

European Aluminium, founded in 1981 and based in Brussels, is the voice of the aluminium industry in Europe. We actively engage with decision makers and the wider stakeholder community to promote the outstanding properties of aluminium, secure growth and optimise the contribution our metal can make to meeting Europe’s sustainability challenges. Through environmental and technical expertise, economic and statistical analysis, scientific research, education and sharing of best practices, public affairs and communication activities, European Aluminium promotes the use of aluminium as a material with permanent properties that is part of the solution to achieving sustainable goals, while maintaining and improving the image of the industry, of the material and of its applications among their stakeholders. Our 100+ members include primary aluminium producers; downstream manufacturers of extruded, rolled and cast aluminium; producers of recycled aluminium and national aluminium associations are representing more than 600 plants in 30 European countries. Aluminium products are used in a wide range of markets, including automotive, transport, high-tech engineering, building, construction and packaging.

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