EUROPEAN ALUMINIUM

Press release

European Parliament's Carbon Border Adjustment Mechanism vote enshrines net rise in global carbon emissions

In the European aluminium industry, production leakage has already led to +10.3 million tonnes of CO_2 in past year

Brussels, 22 June 2022 - European Aluminium, the industry association representing the aluminium value chain in Europe, is very disappointed by the outcome of the European Parliament's plenary vote on the Carbon Border Adjustment Mechanism (CBAM) today. MEPs opted to include indirect emissions in its proposal, ensuring an increase in global carbon emissions from aluminium production. The vote comes without any robust method to calculate indirect carbon costs on imports, and without realisation that the European electricity grid must be much closer to decarbonisation before Europe can draw any benefit from a CBAM on indirect emissions. European Aluminium calls for a more cautious approach to phasing in indirect emissions and highlights that the upcoming inter-institutional negotiations with EU Member States will play a major role in reverting the acceleration of today's carbon leakage path.

Since October, Europe has already lost 50% of its primary aluminium production (1.1 million tonnes) due to record-high electricity costs, which usually make up 40% of costs of the highly electricity-intensive primary aluminium production process.[1] European production losses were immediately replaced by increased production in third countries, notably China, and new capacity is being installed in countries like India and Malaysia. Because the average carbon footprint of primary aluminium production in these countries is up to three times higher than in Europe, the production shift increased net global emissions by 10.3 million tonnes of CO_2 this year, which is equivalent to the annual emissions of 2 million cars.[2] European Aluminium warns that this is just the beginning of a rise in global emissions.

"*Our industry is accelerating the green energy transition by working with clean technology producers to develop new solutions based on sustainable aluminium produced in Europe. We have evidence, however, that including indirect emissions in the CBAM now will hinder these decarbonisation efforts because it will solidify the current high energy prices in our sector and spur carbon leakage. Losing European aluminium production because the CBAM design goes against its actual intentions isn't only bad news for our bloc's strategic autonomy but also hampers the EU's efforts to stop global warming*," says Paul Voss, Director General of European Aluminium.

The recent study *Assessment of European Carbon Border Adjustment Mechanism Regulation,* conducted by CRU Group on behalf of European Aluminium, shows that if indirect emissions are included in the CBAM before the decarbonisation of the electricity network and existing carbon leakage measures are removed, European primary

[1] Europe refers to EU27 and EFTA countries here.

[2] The carbon intensity of the primary aluminium production in Europe (EU, EFTA, UK) is approximately 6.8kg of CO_2 per kg of aluminium produced compared to a global average of 16.1kg of CO_2 and a Chinese average of 20kg of CO_2.

aluminium smelters will lose their economic viability over international competitors. This is because carbon-intensive aluminium producers in third countries will pay less indirect carbon costs than European producers using green electricity due to the EU's unique electricity market design. Primary aluminum imports for semi-fabrication could increase by up to 43% and lead to a total value add loss of up to 77% if an even larger share of European production is replaced with carbon-intensive imports.

"While we welcome the Parliament's proposed review mechanisms to test the impact of the phase out of free allocation on industry, the CBAM as it stands today will unfortunately, even tragically, do more harm than good. The fact that the text as formulated by the Parliament is causing so much distress amongst precisely the European manufacturers it is designed to protect should give legislators pause for serious reflection. We trust that the trilogues will result in a more gradual phase-in of indirect emissions at a later stage so that our producers can compete on a more level playing field while the European electricity grid decarbonises. Including indirect emissions before the CBAM is properly tested would slow down our progress towards carbon neutrality by 2050. We can't remain sustainability champions if aluminium production leaves Europe and investments dry up because we can't compete with more carbon-intensive producers," concludes Voss.

About European Aluminium:

European Aluminium, founded in 1981 and based in Brussels, is the voice of the aluminium value chain in Europe. We actively engage with decision makers and the wider stakeholder community to promote aluminium's strategic role, secure growth, and stress our metal's contribution to meeting Europe's sustainability challenges. We do this through environmental and technical expertise, economic and statistical analysis, scientific research, sharing of best practices, and public affairs and communication activities. Our 100+ members include alumina refiners and primary aluminium producers; downstream manufacturers of extruded, rolled and cast aluminium; aluminium recyclers and national aluminium associations, representing together more than 600 plants and 1 million (direct and indirect) jobs in 30 European countries. Aluminium products are used in a wide range of markets, including mobility, aerospace, transport, clean-tech, building and construction as well as packaging and consumer goods.

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Note to the editors:

Primary aluminium production curtailments in Europe:

- **Germany**: Trimet announced a 50% production curtailment
- **France:** the AIP smelter in Dunkerque, the biggest smelter in the EU with an annual capacity of about 285,000 tonnes, cut output by 15%. No direct layoffs are planned, but temporary workers are being sent home. The plant has lost about 20 million euros since the beginning of November, and further curtailments may be necessary (see here and here).
- **Germany:** Trimet's Voerde and Hamburg smelters announced a 30% reduction in the annual capacity of about 70, 000 tonnes per year (see here).
- **Romania:** Alro, Romania's sole aluminium smelter, reduced its production by 60% and only 2 out of 5 production units will operate in 2022. Personnel reductions at the aluminium smelter and alumina plant amount to 800 workers. Unions rallied in protest against the decision (see here).
- **The Netherlands:** Aldel, the only producer of primary aluminium in the Netherlands with a capacity of 110,000 tonnes, has curtailed production entirely since October. In total, 100 permanent staff and contractors have been laid off (see here).
- **Spain:** Alcoa's San Ciprián aluminium smelter will curtail 228,000 tonnes of annual capacity in the next two years. Alcoa committed to restarting production in 2024 (see here, Alcoa's official press release is accessible here).
- **Slovenia:** Talum lowered production from its Slovenian smelter to a third from 1 November. It produced 114,581 tonnes in 2021 (see here).
- **Slovakia:** Slovalco, Hydro's Slovakian smelter, which announced a 60% curtailment earlier, is in danger of further curtailment.

Additional capacity in third countries:

- **China:** Primary aluminium production run-rate is set to expand by 2 million tonnes in 2022. Vedanta increases production by 316 kilotonnes, with another 414 kilotonnes on the way
- **Indonesia:** Adaro Aluminum announced 2 million tonnes of new production in Indonesia thanks to a new aluminum smelter in North Kalimantan; Huaqing Aluminum is building the first phase of a new thermal-powered primary aluminium smelter with a capacity of 2 million tonnes.
- **Brazil:** Alcoa to restart its Alumar smelter.
- **Argentina:** Aluar smelter to ramp-up to full capacity.
- **Australia:** Alcoa to restart 35 million tonnes per year of capacity at Portland Aluminium.
- **US:** Century aluminium restarted its Mt Holly smelter.
- **Russia:** Rusal launches production at a new smelter in Siberia.
- **Iran:** Aluminium production rose by 24%, up from 365 thousand metric tons the prior year to 453 thousand metric tons in the current year.

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