

To: President of the European Commission Ursula Von der Leyen, President of the European Parliament Roberta Metsola, President of the European Council Charles Michel

Cc: Executive Vice Presidents Frans Timmermans, Margrethe Vestager, Valdis Dombrovskis; Commissioners Thierry Breton, Paolo Gentiloni, Ms. Kadri Simson, European Commissioner for Energy

September 2022

RE: Europe's non-ferrous metals producers call for emergency EU action to prevent permanent deindustrialisation from spiralling electricity and gas prices

Dear Ms President Von der Leyen, dear Ms President Metsola, dear Mr President Michel,

Ahead of Friday's emergency summit, the business leaders of Europe's non-ferrous metals industry are writing together to raise the alarm about Europe's worsening energy crisis and its existential threat to our future. Our sector has already been forced to make unprecedented curtailments in the last 12 months. We are deeply concerned that the winter ahead could deliver a decisive blow to many of our operations, and we call on EU and Member State leaders to take emergency action to preserve their strategic electricity-intensive industries and prevent permanent job losses.

50% of the EU's aluminium and zinc capacity has already been forced offline due to the power crisis, as well as significant curtailments in silicon and ferroalloys production and further impacts felt across copper and nickel sectors. In the last month, several companies have had to announce indefinite closures and many more are on the brink ahead of a life-or-death winter for many operations. Producers face electricity and gas costs over ten times higher than last year, far exceeding the sales price for their products. We know from experience that once a plant is closed it very often becomes a permanent situation, as re-opening implies significant uncertainty and cost.

Europe's clean energy goals require a competitive and growing metals sector to ensure a secure supply of the extra raw materials needed to shift away from fossil fuels. Base metals, battery metals, and other metals are all needed in higher volumes for Europe's grid infrastructure, electric vehicles, solar panels, wind turbines, and hydrogen electrolyzers, as well as a complex web of other essential value chains across the European economy. We actively support your drive to improve Europe's strategic autonomy for its energy transition, and we want to make the long-term investments needed into advancing and expanding our operations ready for 2050.

But all metals production needs affordable and available electricity and gas, whether aluminium and zinc today or lithium and cobalt tomorrow. We are deeply concerned that Europe faces a critical situation for the foreseeable future, with a perfect storm of sky-high electricity prices, no energy market liquidity due to insecure gas supplies, a continued nuclear and coal-phase out, and the remaining power sources being insufficient to cover market needs.

Europe cannot have a successful energy and raw materials strategy if its power and gas prices stay at today's levels for a sustained period without relief. The long-term investment climate for all EU strategic metals operations and projects risks being decimated, and more closures will follow next year once companies are not protected by their 2022 hedging of the electricity price. Any further EU production loss will also increase global greenhouse gas emissions, due to replacement supply from more polluting regions¹.

¹ Many metals are now imported from China and elsewhere. Chinese production is 2,5 times more carbon intensive than European zinc production; 3 more in the case of aluminium and 3,8 more for silicon. We estimate that Europe's replacement imports of aluminium have already added 6-12 million tonnes of CO2 this year.

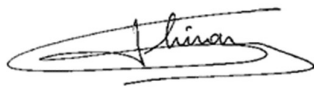


We call on European and national leaders to look at all available options for safeguarding our companies and their future. The crisis requires a complete package of solutions, and no option should be left off the table in this unprecedented situation. Our urgent requests (further detailed in the Annex) are that the EU should:

- **Take temporary action to address the excessive price of fossil fuel power generators**, with an aim to reduce the price of power offered to the market while not contributing to further shortages through increased consumption. It is important that any mechanism does not reduce or remove incentives to enter into long term power purchase agreements for energy intensive industry. Electricity sold over long-term power purchase agreements must be exempted from revenue cap measures.
- **Improve the temporary state aid framework**, through raising the EUR 50 million threshold for relief Member States can provide to struggling companies, adding support for companies temporarily reducing or curtailing production (i.e. for short-term lay-off-costs), and making other crucial technical fixes.
- **Actively promote and incentivize the use of renewable power purchase agreements**, through immediate regulatory action to improve conditions for industrial consumers, and a massively accelerated roll-out of renewables generation.
- **Minimise the impact of extra carbon costs from the Emissions Trading System**, through:
 - Issuing EU guidance to Member States requesting they provide the full allowed compensation of indirect carbon costs (limiting the indirect costs to 1.5% of gross value added)
 - Using the Market Stability Reserve to address excessive carbon prices which are adding extra pressure onto the electricity price
- **Provide further support to companies** through capping taxes and surcharges on electricity and gas, creating an emergency EU relief fund for energy intensive industries.
- **Implement schemes supporting short term interruptibility and demand response** flexibility and critically provide support for longer term care and maintenance curtailments to increase the chance of survival of impacted operations.

More widely, it's important that the European Commission avoids extra regulatory costs on suffering industries in this critical period, diversifies sources of gas supply and evaluates options for temporary solidarity measures to rebalance the windfall profits in other specific sectors during this crisis. The upcoming discussions on the electricity market and long term energy supply are important to the European non-ferrous metals industry and we intend to play an active role.

We appeal for you to take swift and comprehensive action to address today's crisis situation, in Friday's emergency summit and beyond. We would be pleased to discuss our concerns and recommendations further in a meeting with you.



Guy Thiran

Director General, Eurometaux



Mikael Staffas

President, Eurometaux

President and CEO, Boliden



COMPANIES

Ulrich Altstetter

CTO,

Wieland

Gheorghe Dobra

Director General, Alro S.A.

Daniel Vanin

Panos Lolos

Panagiotis Lolos
Sep 2 2022 2:06 PM

Panos Lolos

General Manager, Copper
Segment, ElvalHalcor

Helge Aasen

CEO, Elkem ASA

Hilde M. Aasheim

President & CEO, Hydro

ZAKŁADY HUTNICZO-HUTNICZE
„BOLESŁAW” S.A. w Bukownie
PREZES ZARZĄDU
DYREKTOR NACZELNY
mgr inż. Bogusław Ochab

Ochab Bogusław

CEO, Bolestaw S.A.

BOLESŁAW

Guillaume de Goys

CEO, Aluminium Dunkerque

Rumen Tsonev

CEO and Chairman of the Board,
Holding KCM 2000

HOLDING KCM 2000

Philipp Schlüter

Chair & CEO, Trimet

Roland Harings

CEO, Aurubis AG

Metals for Progress

Mauro Bertagna

Plant Manager, Slim
Aluminium

Evangelos Mytilineos

Chairman and CEO, Mytilineos
S.A.

METALLI ESTRUSI SPA
CONCESIO - BRISCEIA - ITALY
CEO MR MARCO GNUTTI

Maro Gnutti

CEO, Metalli Estrusi SpA

Marco Ruga

Managing Director, Raffineria
Metalli Cusiana SpA

RAFFINERIA METALLI CUSIANA

Emilio Braghi

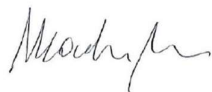
Executive Vice President,
Novelis & President, Novelis
Europe





Andrea Moschini
05.09.2022
15:15:40
GMT+00:00

Andrea Moschini
CEO, Laminazione Sottile group



Martino Neri
Director and CEO, SAFIMET SpA



Fernando Digani
CEO, Metalsider2



Denis Chevé
President and CEO, BEFESA



Marco Vedani
CEO, SOMET SpA



Gerald Mayer
CEO, AMAG Austria AG



Claudio Pinassi
CEO KME Italy SpA



Giampaolo Repetto
Plant Director, HME



Marco Verdani
CEO, INTALS SpA



Ingrid Jörg
CEO, INTALS SpA



Mirosław Wilczek
CEO, Re Alloys Sp. z o.o.



Branislav Klocok
General Director, OFZ, a.s.



Johan Svensson
Managing Director, Vargön Alloys AB



Christoph Kemper
Managing Director, Elektrowerk Weisweiler GmbH



Marco Verdani
Board Member, Xallas Electricidad y Aleaciones S.A.U



Marco Levi
CEO, Ferroglobe



Giancarlo Paci

President, Profilglass SpA



Fausto Guizzi

CEO and President, Raffineria Metalli Guizzi



Giancarlo Paci

President, Profilglass SpA



Davide Garofalo
Portovesme CEO

Davide Garofalo

CEO, Portovesme S.R.L. Glencore



Koenraad Demesmaeker

Chairman of the Supervisory Board, Glencore Nordenham



Carlos Navalpotro

President, Asturiana de Zinc S.A.U.



Sergio Zappa

President and CEO, Normalien SpA



ASSOCIATIONS

Paul Voss

Director General, European Aluminium



Orazio Zoccolan

Director, Assomet



Bruno Jacquemin

Délégué général, A3M



Bernard Respaut

Chief Executive, European Copper Institute



Antonios Kontoleon
Antonios Kontoleon
UNICEN Chairman of board
Sep 6 2022 12:11 PM

Antonios Kontoleon

Chairman of board, UNICEN



Veronique Steukers

Director, H&E Public Policy,
Head of Office Nickel Institute
Brussels



Roland Leder

President, WVMetalle
German Association



Annex 1: Full list of measures addressing high energy prices

We propose the following concrete solutions that go beyond energy market as this unfolding crisis requires a coordinated, largescale policy response which matches the severity of today's situation, that should put all policy options on the table. Structural reform of the energy market organization should be thoroughly analysed and hasty decisions should be avoided.

- Short term:

- **Measures addressing the cost of fossil fuel power generators, aiming to reduce the price of power offered to the market.** Such measures would however need to be very carefully designed and implemented as to not lead to increased consumption, particularly from storage facilities, and further shortages of gas volumes, thus endangering security of supply and exacerbating the problem they seek to tackle.
- **Promote RES power purchase agreements (PPAs) through targeted schemes and immediate regulatory intervention:**
 - Accelerate building of new RES generation to quickly make available larger amounts of electricity in the market and PPA volumes for industry.
 - Increase liquidity for PPAs by incentivizing existing and new generators to offer electricity for this purpose (e.g. through tax incentives, reduced interest rates, green bonds, investment aid conditional on signing PPAs in case of new generation capacity).
 - Incentivise RES plants participating in auctions for state-backed PPAs to contract at least 50% of the installed capacity/output through long-term corporate PPAs.
 - State/EU guarantees to foster signing of RES PPAs with electro-intensive industry, as the Nordic scheme or the Spanish FERGI system.
 - Addressing firming and shaping costs of RES PPAs, through schemes like the Green Pool; explore the possibility of an EU-wide Green Pool-style solution that could help mitigate the impact of gas on respective power prices.
- **Reduced or capped taxes and surcharges** on electricity and gas for the energy intensive industries.
- **Swiftly improve the temporary emergency state aid framework** as to provide useful and sufficient conditions that actually help the most energy-intensive industry during this high energy prices crisis. The eligibility period should be calculated based on the increase in costs since Q42020 and the eligibility requirement to show a negative EBITDA should be removed as it does not reflect the financial reality - a company's EBITDA can be positive while making a net loss. The framework should clarify what can be considered as an undertaking and the cap for maximum aid for energy-intensive consumers (50 million EUR) should be significantly increased. Also, for decarbonization aid to ETS sectors, it should be clarified that conditionality requirements based on ETS benchmarks should only be applicable in case where there is a defined product benchmark (not for sectors under the heat and fuel fallback approach).
- **Issue EU guidance to Member States encouraging full compensation** (indirect costs limited to 1.5% of GVA) of indirect emissions costs of the EU ETS in all Member States.
- **Create an emergency EU fund** that would offer urgent relief/mitigate soaring energy prices impact on competitiveness of European energy-intensive industry.
- **Ensure EU ETS prices² do not contribute** to the pressure on the electricity and gas price – use the Market Stability Reserve to address excessive prices.
- Implement schemes supporting **interruptibility and demand response flexibility**.

² ETS prices do have an impact on electricity prices: a gas power plant emits around 0.4 tCO₂/MWh, so when it sets the electricity price on the market, the CO₂ pass-through cost is around 36 EUR/MWh (considering an ETS price of 90 EUR). It may not seem much in the context of present wholesale market prices, but the comparison should be made against the "normal" electricity prices before the crisis (40-60 EUR/MWh), thus reflecting accurately the impact of ETS prices.



- **Temporary solidarity measures** addressing the windfall profits during this crisis; funds should be directed towards financing state aid measures (including demand flexibility schemes or relief for energy-intensives)
 - **Refrain from introducing new policy** which would add to the industry's production costs (including ongoing files on climate, environment etc.). Particularly for energy-intensive industry, the current situation calls for an emergency "survival mode", to safeguard Europe's economic and social stability: business as usual is not an option.
- Medium term (structural reform):
- **Speed up development of new electricity generation** capacity and infrastructure by reducing permitting lead times and other barriers. This would make available larger amounts of electricity in the market and will increase PPA volumes for industry.
 - **Energy market measures must include clear provisions encouraging long-term corporate power purchase agreements** for carbon free electricity, especially aimed at electro-intensive industries, as presently these instruments are not used in all Member States, thus preventing energy-intensive consumers from hedging against electricity price increase. *The short-term RES PPAs measures mentioned above are equally valid for the medium term, if not implemented earlier.*
 - Incentivizing the necessary investments in new power plants, prioritizing security of supply and affordability; **any phase-out of traditional power sources must be preceded by the deployment of new dispatchable generation and related storage** to ensure a smooth transition and avoid power shortages and volatile prices.
 - **EU ETS prices to be maintained at a bearable level.**
 - **Avoid introducing new policy measures that** could add to the industry's production costs. Legal uncertainty and policy predictability is vital for business environment, for Europe's economic development and avoidable policy-driven cost increases must be reexamined in the light of anticipated inflation and recession.



Annex 2: Updated list of closures and curtailments in the Non-Ferrous Metals Sector since September 2021

The ongoing energy crisis continues to have a devastating effect on our sector. The non-ferrous metals industry (including aluminium, copper, nickel, zinc, and silicon, amongst others) is characterised by extremely high levels of electro-intensity, amounting to 40% of our overall production costs, under normal power price conditions.

The recent surge in electricity prices has forced all EU's zinc smelters, as well as over half of its aluminium smelters, to curtail or even completely idle their production. Since October 2021, the EU has lost nearly half of its primary aluminium capacity (around 1.000.000 tonnes). In the meantime, massive capacity additions are taking place outside Europe with a far higher carbon footprint, more than replacing curtailed aluminium production in the EU. Zinc and Silicon output have also been reduced since last fall. Due to curtailed output in Europe, zinc stocks are extremely low with virtually no stock left in EU. To compensate for this shortage, Zinc is now imported from China. Chinese production is 2,5 times more carbon intensive than European zinc production; 2,8 more in the case of aluminium and 3,8 more for silicon.

Zinc Closures and Curtailments

All 9 electrolytic zinc smelters in the EU have been heavily affected by the power crisis, with many curtailing or completely stopping production. Goldman Sachs has estimated 750,000 tonnes of suspended capacity, equivalent to 45% of total EU production (plus further reduction from Nyrstar Balen of around 160kt).

Glencore (IT, ES & DE)	Glencore shut down Portovesme zinc smelter in Italy. See here and here . The smelters in Asturias (Spain) and Nordenham (Germany) have curtailed output. See here .
Nyrstar (NL FR & BE)	Nyrstar announced that its Budel smelter – producing 315kt zinc annually – will be placed on care and maintenance until further notice. See here . Its other fully electrified zinc smelters in Belgium (Balen) and France (Auby) have reduced production levels by up to 50%. See here .
Boliden (NO & FI)	Boliden Zinc smelters in Norway and Finland curtail production at times of electricity prices spikes.
KCM (BG)	KCM zinc smelter in Bulgaria curtailed production due to high Electricity prices. See here .

Aluminium Closures and Curtailments

Europe has lost around 1 million tonnes of its primary aluminium output due to curtailments and closures in 2021 and 2022. This is equivalent to 50% of the EU's total primary aluminium production.

Aldel (The Netherlands)	The only producer of primary aluminium in the Netherlands with a capacity of 110,000 tonnes, completely curtailed production since October last year. 100 permanent staff and contractors have been laid off (see here).
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Alcoa (ES)	Alcoa to curtail the primary aluminum production at San Ciprián for two years with the commitment to initiate its restart from 2024". See here .
Alcoa (NO)	Alcoa to curtail one third of its production capacity at Lista smelter in Norway to mitigate high energy costs for the site. See here .
Alro (RO)	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 last week (see here). Alumina refinery (ALUM Tulcea) has temporarily suspended alumina production operations, starting with 1 st of August 2022 for an estimated period of 17 months. 500 people were laid off.
Aluminium Dunkirk (FR)	The AIP smelter in Dunkirk, the biggest smelter in the EU with an annual capacity of about 285,000 t, cut output by 15%. Further curtailments may be needed (see here & here).
Talum (SL)	Talum lowered production from its Slovenian smelter to a third from November 1. It produced 114,581 tonnes in 2021 (see here).
Trimet (DE)	Trimet's Voerde and Hamburg smelters announced a 30% reduction in the annual capacity of about 70, 000 tonnes per year (see here). In March, Trimet's Essen smelter also reduced production by 50%, means additional production loss of 82,500 tonnes per year (See here).
Slovalco (SL)	Hydro announced the full closure of its Slovalco plant in Slovakia from September 2022, equivalent to 120,000 tonnes of aluminium annually (see here).

Ferro-alloys and silicon Closures and Curtailments

In the EEA and in the EU the production of ferro-alloys and silicon represents 3.2 Mio T, respectively 2 Mio T. In terms of capacities in the EU, 27% of the silicon and ferro-alloys capacities have already been curtailed. In terms of the number of furnaces having closed down, it represents 40 %.

Aluminium Capacity Additions outside Europe

In the meantime, massive capacity additions are taking place outside Europe with a far higher carbon footprint:

Brazil	Alcoa to restart Alumar aluminium smelter in a joint venture with Australian miner South32 Ltd. Hydro to add capacity in its Albras smelter.
Argentina	Aluar aluminium smelter to ramp-up to full capacity after a deal on power supply was reached with the country's government.
Australia	Alcoa to restart 35 thousand metric tons of capacity at Portland Aluminium.
Russia	Rusal launched production at its long-stalled Taishet aluminium smelter in Siberia.
Iran	Increases in aluminium production by 118k ton y/y and another 100k ton on the way.
India	Vedanta increases production by 316k ton, another 414k ton on the way.
Indonesia	Adaro Aluminum : new 2m ton of production in Indonesia, new aluminum smelter in North Kalimantan. Huagang Aluminum : new thermal-powered primary aluminum smelter with capacity of 2 mton. If completed as designed, the mega smelter will produce 2x what Europe curtailed because of the current energy crisis.
China	Primary aluminum production run-rate set to expand by 2 mton in 2022.
US	Century aluminium restart at Mt Holly smelter. The company has been making significant capital investment at the smelter, aimed at boosting its production capacity and creating additional well-paid jobs in the region.

