

# CBAM Trialogues: Inclusion of indirect emissions could jeopardise Union's decarbonisation ambitions

**7 November 2022 – Amid this month's Climate Change Conference in Sharm el-Sheikh, European Aluminium, the industry association representing the aluminium value chain in Europe, warns against the negative impact of immediately including indirect emissions in the EU's Carbon Border Adjustment Mechanism (CBAM). A premature inclusion without finding a way to adequately reflect the unavoidable indirect costs that European producers face in their electricity prices (even when consuming renewable electricity) would lead to a rise in global CO2 emissions and offer little carbon leakage protection to Europe's decarbonisation champions. The industry supports the more cautious approach suggested by the Council alongside the negotiators' proposed improvements on product scope and governance**

Ahead of tomorrow's round of trialogue negotiations on CBAM, European Aluminium believes it is of high importance to properly evaluate the risk that the inclusion of indirect emissions in CBAM could have on the future of the aluminium value chain in Europe. **An immediate inclusion of indirect emissions in the CBAM, without the adequate safeguards and review mechanisms assessing all downstream impacts and circumvention risks, would do considerable damage to an industry that has already suffered from the impact of the current energy crisis.** Instead, the industry calls on all parties to apply the step-by-step approach put forward by Member State governments alongside the negotiators' proposed improvements on product scope and governance.

Over the past 15 years, Europe has lost one third of its primary aluminium production capacity due to the unfavourable business conditions in Europe vis-à-vis other regions of the world. Since October 2021, 50% of the remaining EU production capacity – equivalent to 1.1 million tonnes – has been shut down due to the rising electricity costs. European production, which is already well below the global average in terms of carbon emissions, was immediately replaced by carbon-intensive capacity ramp-ups in other regions of the world, resulting in a net increase of 10.3 million tonnes CO2 increasing during the past year. Instead of protecting European aluminium producers, the CBAM risks worsening the situation and delivering a hammer blow to this strategic European industry.

Independent studies show how a CBAM on indirect emissions would actively discriminate against low-carbon European production because of the way in which European electricity prices are set (marginal pricing). Therefore, **any extension of CBAM to indirect emissions should only be considered after 2030, by which time the European electricity system**

## 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, 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.

**should be almost completely decarbonised.** This will ensure that the mismatch between indirect carbon costs and indirect carbon emissions has been reduced to minimum levels.

For these reasons, European Aluminium supports the European Commission initial proposal and the Council's General Approach which stress that **indirect emissions in CBAM should not be considered until an adequate methodology mirroring the unique indirect carbon costs producers face in Europe has been developed.** Compared to sectors that are much less trade and electro-intensive than aluminium, including indirect emissions too early will hurt the aluminium transformation industry particularly hard, leading to more carbon leakage and depriving the EU's future of a raw material that is key for the green deal and transition to a circular economy.

*"Given the role a CBAM plays in Europe's decarbonisation agenda, we reiterate that the system should be first tested, and all circumvention risks and downstream impacts assessed. We welcome the Council's proposal for a more gradual reduction of free allocation, accompanied by a detailed review before 2028 and periodic reviews every two years. This should also include a safeguard mechanism in case the CBAM doesn't meet its intended objectives",* said Emanuele Manigrassi, Senior Manager Energy & Climate.