



# CBAM Product Scope

## Why alumina should not be included (Annex I)

### Impacts of including alumina to the CBAM scope

Brussels, 18 November 2022

#### Position Paper

The Commission Services recommended, in an internal paper dated 15 November for the CBAM working party and COREPER, to include alumina in the initial product scope of the CBAM Regulation (CN product codes in Annex I of the draft Regulation) because:

- The material is a precursor to the production of primary aluminium, with significant embedded emissions;
- Alumina producing installations in Europe fall under the scope of the EU ETS and therefore *“the emissions related to the production are reported by the installations in which they are produced. Which means that users of the material – producers of primary and downstream aluminium - indirectly carry the CO<sub>2</sub> costs”*.
- Recent discussions with the Commission’s consultant Umweltbundesamt (in charge of defining the methodology for reporting embedded emissions during the transitional phase) suggest precursors for which emissions will be monitored (according to the methodology in Annex III of the Regulation) should automatically be included in the CN code product scope.

***European Aluminium opposes the principles that an emission intensive precursor should automatically be included in Annex I (CN code product scope) of the Regulation at this stage of the decision-making process and that the relevance of emissions should be the only criteria for including products in the scope of the Regulation:***

- Including alumina, or any other major emission components in the initial stage of CBAM (including indirect emissions<sup>1, 2</sup>) will lead to significant increase in alumina prices in Europe at a time when the few still remaining operating primary smelters are on the bridge of closure because of the energy crisis.
- It will accelerate carbon leakage of alumina production in Europe which will lose additional free allocation and face as well a faster reduction of free allocation because of the steeper reduction of the applicable ETS benchmarks (fall back: heat & fuel).
- Since the start of the negotiations for the development of the CBAM, European Aluminium has consistently highlighted that the CBAM will not be an effective carbon leakage tool for our sector. The CBAM, as currently proposed (as a replacement to the existing carbon leakage

<sup>1</sup> See CRU Study, May 2022 : [https://alu.purebrand.be/wp-content/uploads/2022/10/22-05-31-cru\\_assessment-of-european-cbam-regulation\\_executive-summary.pdf](https://alu.purebrand.be/wp-content/uploads/2022/10/22-05-31-cru_assessment-of-european-cbam-regulation_executive-summary.pdf)

<sup>2</sup> See our PR, November 2022 : <https://alu.purebrand.be/wp-content/uploads/2022/11/european-aluminium-pr-on-cbam-trialogues.pdf>

CBAM product scope: Why alumina (a key precursor for primary aluminium production) should not be included in the initial product scope (Annex I)

measures), is guaranteed to increase carbon leakage in our sector, instead of reducing it. By further extending the CBAM scope in order to include alumina as well, the problems caused by the CBAM are further exacerbated.

- This is particularly problematic when we consider that bauxite (the raw material used to produce alumina) **is on the EU Critical Raw Materials list**. Adding alumina to the CBAM's product scope would compromise the global competitiveness of Europe's (few remaining) alumina producers, thereby also compromising our ability to mine and refine bauxite. As a result, Europe's dependence on third countries for raw materials will increase even further, at a time when we are trying to reduce this dependence (hence the upcoming Raw Materials Act).
- The Council itself in its position recommended that before adding new products in the scope of the Regulation, the Commission must first carry out impact assessment work, looking at cross-commodity impacts, downstream impacts, and the overall functioning of the internal market. This is also a contradiction with the need to consider value chain complexities.
- A too early inclusion of alumina will generate a spike increase of global aluminium prices, putting us at a disadvantage compared to other competing materials in the CBAM (steel in particular).
- The cost will be particularly felt by downstream producers and primary aluminium producers, which will face a steep cost increase of their raw material supply for producing their products.

## Our proposal

Alumina should not be included immediately in Annex I as a stand-alone product. Primary aluminium is a complex good, and emissions from the production of alumina should be accounted for in the embedded emissions of primary aluminium to be reported during the transitional phase (Annex III).

We instead suggest adopting a progressive approach regarding inclusion of extra products in the CBAM scope:

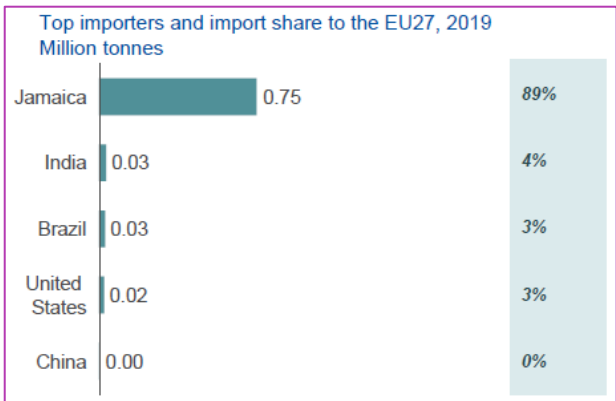
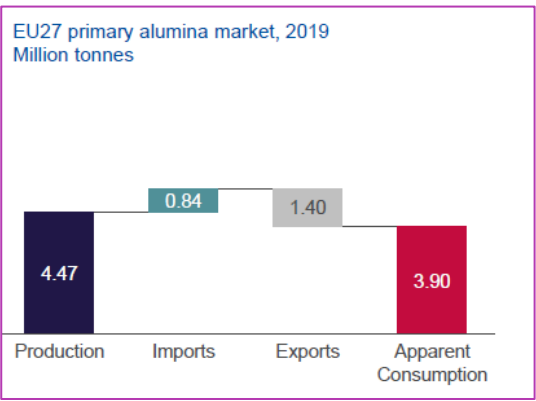
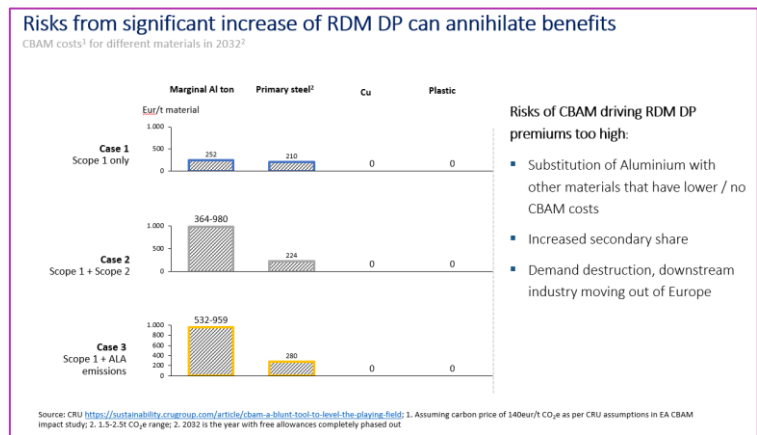
- Direct emissions first and the entirety of products covered in chapter 76 of the CN code (with the exemption of 7602);
- Then gradually include aluminium-intensive products not in chapter 76 to the scope of the proposal,
- and then, after 2030, when our electricity system is close to decarbonisation and once the system has been initially tested, consider the extension of emissions scope to indirect emissions and to extend the product scope upstream and downstream (Annex I).

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## ANNEX – Analysis of potential impacts & recommendations

Should alumina be included too early, we expect **tangible carbon leakage and shift of trade patterns for non-CBAM aluminium-intensive products** (e.g., aluminium wheels) which will be produced outside of Europe, then imported with zero CBAM costs rather than produced in Europe.

European **downstream and primary producers will face an increase in the price of their raw material**, which will put them at a disadvantage compared to other materials. This leads to a high risk of industry relocating to a country where they would not be faced with similar costs. Additionally, there would be as well a high chance of substitution for steel, copper or plastics in applicable end-use segments. (see below).



Alumina Market (Source: CRU)

European **alumina producers will also see their costs massively increase** as they will face a faster reduction of free allocation because of the benchmark updates, and they will have **no tool to re-balance the cost increase they will face compared to third country producers** competing on the same export markets where a CBAM is not applied. Addition of upstream products to the CBAM product scope should be subject to a **careful impact assessment by the European Commission**, as the **CBAM impact on regional Aluminium premiums (e.g., Rotterdam Duty Paid for instance) depends on many unknowns** such as the overall CBAM set up, carbon price evolution in Europe and other regions, acceptance of Russian material in Europe, evolution of regional premiums in other regions, evolution of freight rates and section 232 evolution and/or any other trade defense mechanisms globally.