# EUROPEAN ALUMINIUM FEEDBACK ON:

## *EUROPEAN COMMISSION STUDY ON CBAM SCOPE EXTENSION TO DOWNSTREAM PRODUCTS*

1 July 2024

### 1. Scope extension feasibility to downstream products, including barriers and challenges

CBAM coverage of downstream products containing aluminium or made exclusively out of aluminium is feasible.

This should involve expanding the range of products covered and developing methodologies to:

- Identify products containing CBAM materials such as aluminium.
- Define the aluminium content in these products and the associated embedded carbon emissions.

CBAM not expanding to downstream products and having only aluminium CBAM products covered upstream, will lead to higher cost for downstream products and incentivize industry relocation outside of Europe (or increasing imports of finished products). Bother scenarios can compromise the effectiveness of the CBAM.

The identification and inclusion of the most immediate downstream products containing aluminium (one-step down HS 76) should be straight-forward. It mitigates technical challenges and the risk of leakage, as going further downstream the CBAM additional cost should diminish in proportion to the total value of the product.

Furthermore, it is important also to understand the implications between extending the product scope and the emissions scope when it comes to aluminium. If indirect emissions will be included at some point, aluminium produced in Europe will become too expensive to be processed in Europe.

This would lead to even more carbon-leakage: production of aluminium-based products being moved to regions without equivalent carbon costs and Europe will be importing the finished products instead (cars, airplanes).

This would jeopardize the entire European aluminium industry - the contrary of what the CBAM intends to achieve. Therefore, indirect emissions should not be included in the CBAM until the product scope covers all finished products.

To the extent that indirect emissions remain out of scope, the inclusion of downstream products can be prioritised. The starting point should be products made entirely or mostly of aluminium (can ends, automotive parts including battery/battery cases). One of the main challenges will be identifying products with aluminum content, as these products are often classified under mixed HS (or CN) codes.

European Aluminium has compiled a list of HS (or CN) Codes to be considered for inclusion in the CBAM (attached to this document). These are categorised as:

- 100% aluminium (little complexity for CBAM product expansion);

- Mixed material composition (where the challenge will be to identify the % of aluminium content);
- Mixed CN code, where a potential solution would be to first create a CN Code only for the aluminium product. One example is European Aluminium's ongoing work for requesting a separate CN code for aluminium can ends, as a sub-chapter under CN code 8309 90.

Another solution would be to create separate HS codes for products containing aluminium to align CN codes with CBAM.

## 2. Most relevant value chains and downstream products to be included

Priority should be automotive products, and, in general, products with high aluminium value relative to the final price and that are highly commoditized (less degree of value add/degree of differentiation).

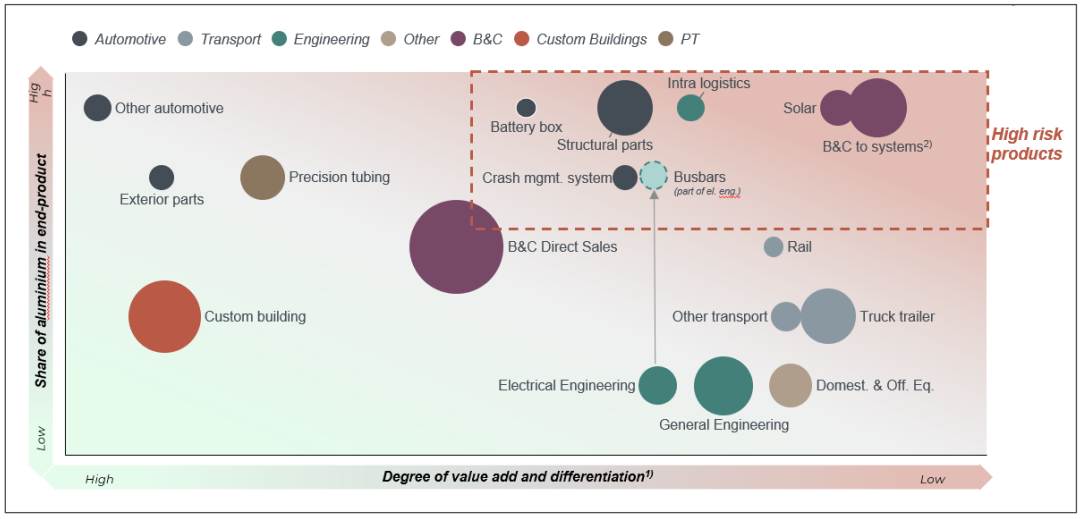
Examples include:

- Automotive (e.g. wheels, body panels);
- Packaging (e.g. cans, food packaging), Electrical (e.g. cables);
- and Building and construction (e.g. window frames, architectural solutions).

For the identification of products, we would recommend identifying products where aluminium is used to a certain extent (for example by defining a threshold).

A starting point can be the Global Aluminium Flow 2007 from liquid aluminium to end-use goods. From these value chains, aluminium containing products should be identified and scoped.

Focus must be for products with a high content of aluminium above certain threshold (to be defined) and to products with low value added provided by the transformation.




In addition, special attention and focus should be given to products that might be produced from competing basic materials which are out of CBAM scope (e.g. automotive parts that might be made with plastics).

In annex to this document, we provide a list to serve as a starting point of such analysis which provides a selected number of downstream products which are either:

- 100% made of aluminium and not yet included in the current CBAM scope;
- Containing a high share of aluminium (mixed material composition);
- Currently without a dedicated CN code (mixed CN code).

The Commission study should target to identify, address and scope other aluminium containing products which fit the above criteria and have the risk of carbon leakage.

## 2. Potential data sources for qualifying and quantifying the risk of carbon leakage of CBAM goods;

To identify aluminium containing products, one source to be considered is the 'Metal composition of products' dataset NTNU Trondheim/University of Freiburg (2016).

This was used in a study by the ERCST (June 2021) about the impact of CBAM on the aluminium value chain and potential leakage risk if certain automotive components were not included in the CBAM scope.

*Table 9 Complexity vs. carbon leakage trade trade-offs for CBAM horizontal scope options*

| CBAM horizontal scope | Complexity | Carbon leakage risk |
|---|---|---|
| Primary aluminium | Low - relative more straightforward to implement, involving relatively few entities and shipments | High - higher raw material costs in EU vs. imports of products, which are not subject to CBAM |
| Primary aluminium and semi-finished aluminium products | Medium - increase in the number of entities and products/shipments covered; determination of emissions embodied in the primary aluminium used for semi-finished products, remains straightforward as semis have a near 100% aluminium content | Medium - risk partly mitigated as the carbon costs diminish in proportion to product value |
| Primary aluminium, semi-finished, and finished products | High - considerable increase in the number of entities and products/ shipments covered; determination of individual products' aluminium content and therefore embedded emissions becomes more complex | Low[(1)] - risk mitigated the further downstream in the value chain, as the carbon costs borne by products diminish in proportion to their total value because of higher value added of more complex products and lower aluminium content. |

Notes:
[(1)] Rated "low" assuming a CBAM design that minimizes the risk of resource shuffling. Resource shuffling would occur if foreign producers shifted trade patterns to ship existing low-carbon production to the EU, and high-carbon production elsewhere, thereby gaining reduced adjustment at the EU border but not ultimately changing their emissions profiles.

The product scoping should also take into account:

- Imports quantity and value;
- Import share over total domestic market;
- Impact of CBAM into the product value with respect to total product value;
- Substitution risk with competing materials (in CBAM or not in CBAM).

The impact of section 232 and consequent US downstream industry relocation is a good example to reflect upon.

## 4. Technical and infrastructural requirements for extending CBAM to downstream products, including considerations regarding calculation, monitoring and reporting rules of the products' embedded emissions as well as related compliance costs and administrative burden.

The full GHG emissions content of an industrial product is difficult because of the complexity of all value-adding operations that have been performed on it along the value chain, many of which leave no trace in the product itself.

In order to define a given threshold of aluminium product in a complex good containing aluminium, the methodology to be develop should therefore:

- Determine the system boundaries of the product;
- its associated emissions to be applied to the equivalent share of aluminium content in the total product.

- Require a certified declarations of aluminium content and/or a methodology to calculate the aluminium content.

One idea can be to start from a workable approximation: the full GHG emissions content of the imported good is approximated by the GHG emissions content of the incorporated aluminium, restricted to those representing more than e.g. 1% of the total mass. Micro-electronics, which generate large GHG emissions despite their small mass, could still be included in the calculation.

The total GHG emissions content would thus be calculated as: the mass of aluminium present in the item (in significant proportion) is multiplied by its GHG emissions intensity (i.e. the GHG emissions embedded in each kilogram of aluminium).

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