



# TOWARDS A FAIR & EFFECTIVE CBAM: KEY RECOMMENDATIONS FOR A COMPETITIVE EUROPEAN ALUMINIUM INDUSTRY

## POSITION PAPER

Brussels, 26 November 2024

### Introduction

In the context of the European Union's commitment to achieving climate neutrality by 2050, the Carbon Border Adjustment Mechanism ([CBAM](#)) was developed to ensure that decarbonisation goals are met by preventing carbon leakage and promoting a level playing field for industries operating within Europe. As European Aluminium, we support these climate objectives,

However, the current CBAM design raises significant challenges for the European aluminium sector, an electro-intensive industry that operates as a price taker in highly competitive global markets, with Europe relying on imports for over 50% of its needs.

[Independent analysis](#) commissioned by European Aluminium has demonstrated that **CBAM cannot be considered a suitable alternative to existing EU carbon leakage protection measures and will lead to an increase in global emissions as well as cost increases across the entire downstream aluminum value chain and their customers, thereby undermining the industry's competitiveness**. Furthermore, our sustainability efforts are further hampered by rising energy and emission costs, which are significantly higher than in other regions of the world, and by an influx of carbon-intensive, subsidised imports, both of which erode the cost competitiveness of European aluminium producers.<sup>1</sup>

The aluminium industry has already invested heavily in decarbonisation, but we continue to face pressures from the unique indirect carbon costs only European producers face in their power price due to the EU's Emissions Trading System (ETS) – see a short explanation [here](#). These costs will remain significant, even when consuming decarbonised electricity or signing long-term power contracts.

As the EU moves towards the full implementation of CBAM, it is crucial that its design reflects the unique features of energy-intensive industries like aluminium and mirrors the actual carbon costs paid in Europe. The mechanism must ensure that European producers are not disadvantaged while advancing European climate goals.

We therefore urge the Commission, EU Member States (national CBAM and customs Authorities in particular) and broader stakeholders to address key design elements to ensure that the mechanism protects at least as effectively against carbon leakage as the existing carbon leakage measures.

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<sup>1</sup> DRAGHI, September 2024, *The future of European competitiveness – In-depth analysis and recommendations* [online], p. 103 - [link](#)

Below you can find our recommendations to alleviate some of the negative impact of CBAM on EU producers in the aluminium value chain, with reference to more detailed memos and position papers on CBAM hyperlinked in the text.

## 1 Keep out indirect Emissions from CBAM Aluminium Products

Due to the challenges in accurately reflecting the indirect carbon costs faced by European producers under the EU ETS, we call for the **exclusion of indirect emissions from CBAM for aluminium goods until the EU electricity grid is fully and permanently decarbonised**, which is unlikely before 2035, and until CBAM proves to be at least as effective as existing carbon leakage protection measures. This is because low carbon aluminium producers will always pay an indirect carbon cost in the price of electricity, while the same products produced in third countries will be exported to Europe with no comparable carbon cost. CBAM must fully align with the direct and indirect carbon costs of the EU ETS and close any loopholes. Including indirect emissions risks circumvention via resource shuffling, raises raw material costs massively and even [increases global emissions](#).

Furthermore, if indirect emissions will be included at some point (and even if the inherent mismatch between indirect costs and emissions could somehow be solved), aluminium 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, while 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 is expanded downstream to more finished goods.

## 2 Scope Extension to Downstream Products and competing materials

We recommend expanding the CBAM product scope to **include downstream products containing aluminium or made entirely from aluminium**. Without this [extension](#), limiting CBAM coverage to upstream aluminium products will increase costs for downstream products, leading to industry relocation or increased imports of finished goods, undermining the CBAM's effectiveness. Moreover, if indirect emissions are later included, aluminium produced in Europe could become too costly to process locally, further exacerbating carbon leakage.

The immediate focus should be on downstream products where aluminium content is significant, such as automotive components, packaging, and building materials. Further analysis is required to assess indirect emissions and material composition and develop new CN codes for aluminium-rich products. Products with a significant share of aluminium, low value-added or those at risk of substitution by non-CBAM materials should be prioritised. Competing materials to aluminium should be included in CBAM as soon as possible to avoid distortions of competition between CBAM & non-CBAM products, e.g. copper, paper or plastics.

Finally, the transitional period for new ETS sectors part of the horizontal expansion should be shorter than ten years, since the system and rules will already apply as of 2026. This would ensure a level playing field vis-à-vis other commodities.

### 3 Strengthening Existing Carbon Leakage Protection Measures

We support the final agreement that excludes the application of CBAM on indirect emissions for sectors currently eligible for indirect cost compensation under EU State Aid rules. Maintaining and strengthening the current carbon leakage protection measures, particularly the ETS Free Allocation and indirect cost compensation is critical. The current design of CBAM does not offer sufficient protection for the entire aluminium value chain, and the **mechanism must be adapted to account for the electro-intensive and price-taker nature of the sector**. Ensuring that these essential protection measures remain in place is vital to maintaining the competitiveness of European aluminium producers.

**Therefore, while the CBAM for aluminium imports should focus solely on direct emissions, the ETS indirect cost compensation system must remain in place and be fully used by governments to protect electro-intensive industries from carbon leakage.** Also, in line with the recommendations in the Draghi Report, the phase-out of free allocation should be reconsidered if the CBAM does not prove to be an effective carbon leakage and emission reduction measure.<sup>2</sup>

### 4 Cautious Implementation and Regular Assessment of CBAM Effectiveness

CBAM should be phased in carefully to ensure it functions as intended and preserves a level playing field for European producers. Each implementation step should be evaluated to avoid unintended consequences such as increased carbon leakage due to higher costs for European companies and consumers and increased administrative complexity.

As emphasised in the Draghi report, **the design and effectiveness of CBAM should be closely monitored during the transition phase, with careful evaluation of whether to postpone the reduction of free ETS allowances if the implementation proves ineffective in protecting against carbon leakage.**<sup>3</sup> The Commission should therefore carry out a detailed assessment on the consequences of including or excluding more aluminium products upstream or downstream as soon as possible, including precursors such as alumina (see our paper explaining why alumina should not be included in the CBAM product scope [here](#)). This assessment should be reviewed regularly as the CBAM is gradually phased in.

### 5 A solution for aluminium exports

EU producers export between 10% and 15% every year, mainly semis manufactured products (aluminium rolled and extruded products), representing around 2.2 million tons, depending on the year, for a total value of around 7.5 billion EUR. If there is no exports solution, these volumes will be at risk because they will be competing on export markets with no comparable ETS cost and they will also face a raw material cost increase due to the introduction of the CBAM on imported primary aluminium goods and its impact on the European duty paid premium which is used, together with the London Metal Exchange rate, as a price reference for aluminium transactions in Europe. Without an export solution, any third country importing aluminium semis manufactured or downstream products (or other products containing aluminium) would have a strong economic incentive to cover their demand using non-EU products (which

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<sup>2</sup> DRAGHI, September 2024, *The future of European competitiveness – In-depth analysis and recommendations* [online], p. 105 - [link](#)

<sup>3</sup> DRAGHI, September 2024, *The future of European competitiveness – In-depth analysis and recommendations* [online], p. 105 - [link](#)

would be exempted from paying ETS costs or a CBAM charge) as European products would be significantly more expensive, due to the additional carbon costs they incorporate

## 6 Consistency in Emission Factor Reporting

During the CBAM **transitional period**, all importers should use internationally accepted [emission factors](#), such as those provided by the International Energy Agency (IEA), when submitting quarterly CBAM reports. **Third countries' national grid mix** should be the one and only value to be **used as default values for reporting indirect emissions**. This would avoid diverging reporting practices and ensure consistency for developing a sound methodology.

In the **definitive period**, the emission factor of the **country-of-origin's electricity grid** should be used for default values, incentivising grid decarbonisation in third countries and ensuring data consistency and reliability. **Exemptions to these default values should be minimal and permitted only under strict conditions**. The Commission should first better understand the functioning of electricity markets in third countries and to what extent they are comparable (e.g. with indirect carbon costs) to the one we have in Europe because of the EU ETS and the marginal pricing system (see our our Memo on the methodology for indirect emissions in CBAM from May 2023 [here](#)).

Moreover, the EU should adopt a stronger stance against imports from countries with non-market economies to reduce our dependence on third countries and the influx of carbon-intensive imports.

## 7 Addressing all circumvention risks and Resource- Shuffling

We urge the Commission to address all risks and loopholes related to circumvention and resource-shuffling, such as:

- **Prohibiting the use of Renewable Energy Certificates, such as Guarantees of Origin (GoOs)**, for reporting indirect emissions in imported aluminium CBAM products. Without a well-regulated and transparent global market for such certificates, circumvention risks are high, as demonstrated in cases like Iceland's sale of the same green electricity twice.<sup>4</sup>
- **Full Installation reporting and emissions verification across the entire value chain**: Emissions from input materials should be attributed to the entire manufacturing site, rather than allowing the selective attribution of low-carbon inputs for products intended for Europe. This ensures a comprehensive accounting of emissions without the potential for manipulation. Furthermore, during the definitive period, third country installations should provide verified emissions data across the full value chain, including precursors used for the production of the exported good.
- **Developing examples under Art. 27**: The FAQ document regarding Art. 27 should include additional examples, particularly related to the "re-shuffling of trade and input material flows," to clearly identify these practices as circumvention of CBAM. For instance, creating a separate entity for low-carbon production aimed at export to Europe while continuing high-carbon production for other markets illustrates this issue. Additionally, industry collusion to reduce reported carbon

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<sup>4</sup> See Article [here](#) explaining the risks of Renewable Energy Certificates for electricity in Europe : « How Iceland sold the same Green Electricity twice », May 2023

footprints—such as trading internal scrap ("run-around scrap") to inflate scrap input rather than keeping it within the same installation—should also be highlighted.

- **CBAM Calculation for Goods from Non-Market Economies:** The CBAM for goods originating from non-market economies should be based solely on default values. This should reflect the worst-performing countries or producers of primary aluminium, or at a minimum, the weighted average of the entire primary aluminium production in the exporting country, without considering actual values or recycled content.
- Circumvention could arise via importers **leveraging the “secondary production” route, maximising the allocation of scrap from third countries - bearing no carbon cost** – to products exported to Europe, thus reducing declared emissions and leading to imported goods avoiding the carbon costs faced by goods in the ETS area. Consequently, products not destined for Europe would retain higher emissions without repercussions, ultimately resulting in an increase of global carbon emissions and undermining the CBAM’s intended objective to protect aluminium producers against carbon leakage.

To mitigate this risk, further analysis is needed during the transitional period, with **robust third-party verification systems in place**. In this context, we also call for **mandatory checks of CBAM reports** by competent authorities and the timely implementation of penalties, in line with those under the EU ETS, to ensure compliance and prevent circumvention (See our paper on reporting obligations during the transitional period of CBAM [here](#)).

## 8 Removal of Double Reporting for EU/EFTA-Origin Precursor

We call to remove the requirement for importers to report emissions data for EU/EFTA origin precursors under CBAM. This requirement creates unnecessary administrative burdens and leads to potential double taxation for European producers who already report emissions under the EU ETS. Implementing this change will streamline compliance and ensure that CBAM remains focused on addressing carbon leakage without imposing redundant obligations on EU/EFTA-based producers (See our letter to DG TAXUD on CBAM double reporting and taxation concerns from February 2024 [here](#)).

**For further information:**

- [Here](#) our answer to the European Commission study on the CBAM scope extension to downstream products (July 2024)
- [Here](#) our letter to DG TAXUD on CBAM double reporting and taxation concerns (February 2024)
- [Here](#) our position paper on the Draft Implementing Regulation on Reporting Obligations during the transitional period (July 2023)
- [Here](#) our memo on the methodology for indirect emissions in CBAM (May 2023)
- [Here](#) our Position Paper on why alumina should not be included in CBAM (November 2022)
- [Here](#) CRU External Study “Assessment of European Carbon Border Adjustment Mechanism Regulation” for European Aluminium (May 2022)
- [Here](#) our detailed position paper on the proposed CBAM (October 2021)
- [1 pager](#) on why a CBAM on indirect emission will increase global emissions (June 2022)
- [1 pager](#) on why indirect emissions in CBAM will harm European production (October 2021)
- [Here](#) our non-paper CBAM and excise duty tax design (February 2021)

*For more information on European Aluminium’s work on CBAM, all papers, external studies, EU public consultation responses and memos are available at the [“Climate & Energy Section”](#) on our Website under “CBAM”.*

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