REVIEW OF THE EU EMISSIONS TRADING SYSTEM (ETS) AND MARKET STABILITY RESERVE (MSR) POST-2030

SUMMARY OF ANSWERS TO EU PUBLIC CONSULTATION QUESTIONNAIRE

Brussels, July 2025

Executive summary

European Aluminium, representing the full aluminium value chain in Europe, supports the EU's climate ambitions and recognises the EU ETS as a central instrument to drive decarbonisation.

However, the current design and future trajectory of the EU ETS and the MSR threaten the viability of Europe's aluminium sector—a strategic industry under the Critical Raw Materials Act (CRMA), Net Zero Industry Act (NZIA), and crucial for the Europe's decarbonisation and security objectives.

Post-2030 reforms must preserve industrial competitiveness, introduce flexibility, and align with the sector's decarbonisation realities. This position paper outlines critical recommendations for revising the ETS and MSR to ensure effective, fair, and forward-looking climate policy to preserve and grow aluminium production in Europe, given the Union's growing need of the material and import dependency.

1. Effectiveness of the ETS and MSR

ETS Effectiveness

ETS has been effective in coal-to-gas switching in the power sector which led to reduced emissions. However, massive subsidies (≈1tn) were the main driver for RES investments. For the aluminium industry, the ETS has led to increased carbon costs and loss of competitiveness. Moreover, competition in the electricity sector is national or at most regional, allowing producers to pass on their ETS costs to customers. Primary aluminium producers instead cannot pass on in the product price ETS "indirect" carbon costs, because aluminium is priced globally at the LME. The ETS has thus not been effective in driving industrial decarbonisation and competitiveness for the industry.

Europe has lost over 30% of its primary aluminium production capacity since 2008. Therefore, ambitious complementary policies are needed to further decarbonise aluminium production, given the limited and expensive abatement trajectories[1] and the relevance of indirect emissions in the primary aluminium production process, with electricity representing between 30% and 40% of the production costs for a primary

[1] European Aluminium, *Net Zero by 2050: Science-based decarbonisation pathways for the European aluminium industry*, 14 November 2023 [Link].

aluminium smelter in Europe[2]. The industry has used all available and economically viable solutions. ETS costs represent an additional cost challenge compared to their international competitors and CBAM is not the solution, given the many loopholes in the concept and design[3].

MSR Effectiveness

The MSR helped address historical surplus but is now outdated. Its design is ill-suited to a context of declining caps, potential allowance shortages, and industrial transformation needs. It fails to support industrial growth or shield against volatility.

Recommendations:

- Revise MSR to manage shortages and prevent extreme price spikes.
- Eliminate the invalidation mechanism or reintroduce allowances as needed.
- Ensure surplus allowances are made available to industry rather than retired.
- Unused allowances due to industrial curtailments should not be invalidated and used to support industrial growth and decarbonisation.

2. Industrial Competitiveness and Carbon Leakage Protection

The EU ETS imposes high and rising compliance costs, exacerbated by indirect electricity costs and a flawed carbon leakage framework. CBAM does not provide adequate protection for globally traded LME-priced products like aluminium.

Recommendations:

- Extend indirect cost compensation beyond 2030 with minimum harmonisation (e.g. EU Member States should grant an equal minimum level of compensation to aluminium producers if they decide to compensate).
- Maintain free allocation post-2030 for non-CBAM sectors based on updated benchmarks. In parallel, CBAM product scope downstream should be expanded and competing materials to aluminium should be included in CBAM as soon as possible to avoid distortions of competition between CBAM & non-CBAM products[4].
- The phase out of free allowances for CBAM sectors should be put on hold should the CBAM mechanism not prove to be effective in protecting the industry against carbon leakage, as recommended in the Draghi report[5].

[2] DG ENER / Trinomics *"Study on energy prices and costs - evaluating impacts on households and industry's costs – 2024 edition"*, September 2024 [link]
[3] European Aluminium position paper on CBAM, April 2025 [link]
[4] See p. 6 European Aluminium position paper on CBAM, April 2025 [link]
[5] See p. 105 of the Draghi report which calls to "*Evaluate whether to postpone the reduction of free ETS allowances if CBAM's implementation is ineffective*", September 2024 (link)

- Introduce product-specific ETS Product benchmarks for aluminium recycling and alumina[6].
- Lower the threshold for dynamic allocation to better reflect real production levels.
- Stop rebasing & amend price containment mechanism.
- Review the Linear Reduction Factor (LRF) so that EUA supply reaches 0 in 2050.
- Allocate at least 50% of ETS revenues to energy-intensive sectors competitiveness, with dedicated funding calls for CBAM sectors, as indicated in the Recitals of the revised ETS Directive[7].
- Rethink the entry into force of ETS2 and reflect on EU State Aid Guidelines to address carbon leakage for small aluminium installations affected by ETS2.

3. Coherence with Broader Climate and Industrial Policy

EU climate policies must be coherent, technologically neutral, and respect sectoral specificities. The disproportionate ambition placed on ETS sectors must be rebalanced with non-ETS sectors. The aluminium sector, critical for the green and digital transitions, deserves targeted support. When it comes to the EU ETS and the aluminium value chain, the level of ambition must be designed in a way to reflect the aluminium industry's abatement potential and the expected technological developments for emissions abatement in the short, mid and long term.

Recommendations:

- Integrate international carbon credits and EU-certified removals into ETS compliance.
- Promote fair burden-sharing across sectors.
- Urgently establish CAPEX/OPEX funding instruments for aluminium decarbonisation, including through the Industrial Decarbonisation Bank. The future bank should fund in priority sectors that are strategic for the Union's resilience, decarbonisation and security.
- Improve access to the ETS Innovation Fund for mature, deployable technologies (e.g., electric boilers, bio-methane, Mechanical vapor recompression technologies) or consuming Renewable Electricity via RES PPAs.

4. Enhancing Flexibility and Simplification

Administrative complexity undermines cost-effectiveness. Conditionalities on free allocation and funding must reflect operational realities and be streamlined to enable SME participation.

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[6] See European Aluminium position paper on ETS Free Allocation Rules (FAR) Review, December 2023 [link]

[7] See Recital 46 of the Revised ETS Directive 2003/87/EC [link] : *« The free allocation no longer provided to the CBAM sectors based on this calculation (CBAM demand) is to be added to the Innovation Fund, so as to support innovation in low-carbon technologies, carbon capture and utilisation (CCU), carbon capture, transport and geological storage (CCS), renewable energy and energy storage, in a way that contributes to mitigating climate change. In this context, special attention should be given to projects in CBAM sectors".*

Recommendations:

- Simplify annual emissions reporting and energy audits.
- Reduce verification burdens (e.g., biennial audits or only on verifier change).
- Loosen conditionalities for accessing ETS indirect compensation funds and for obtaining free allocation (Climate-Neutrality Plans and Energy Efficiency audits).

5. Scope Extensions and International Dimensions

The inclusion of new sectors and potential ETS linkages must be approached cautiously. The risk of inflationary pressure from high-abatement-cost sectors like municipal waste incineration must be mitigated.

Recommendations:

- Delay inclusion of high-cost sectors (e.g., MWI) until viable technologies exist.
- Reassess aviation and maritime treatment to avoid asymmetrical burden on EU industry.
- Promote linking only with systems that align on cap setting, leakage protection, and offset rules.
- Prioritise international cooperation over unilateral EU burdens (e.g., in maritime emissions).

6. Role of Carbon Removals and CCU

Reaching net-zero by 2050 will require inclusion of carbon removals. However, removals must supplement—not substitute—direct reductions, and be subject to strict integrity standards.

Recommendations:

- Integrate permanent carbon removals as eligible ETS compliance instruments by 2028: when the CDR Registry will be in place, permanent CDRs should be tradable, bankable and used in ETS compliance for the hard-to abate sectors. There should be no quantitative limitation per installation as residual emissions will vary from sector to sector.
- Develop robust certification frameworks for international and EU-based CDRs.
- International CDRs should be allowed only if certified with the same robust methodology and certification in Europe.
- Allow limited, phased use of CRCF-certified removals to enhance flexibility and liquidity.
- Enable downstream accounting and chain-of-custody models for CCU to promote circular carbon.

7. Use of ETS Revenues

Current transparency on ETS revenue use is insufficient. There is a critical need to earmark funds for industrial transformation, especially in strategic sectors like aluminium production. Today's approach under the EU ETS Innovation Fund favours un-bankable loss-making projects and applying for funding is an extremely complex

and bureaucratic process, not accessible to smaller companies. The existing distinction between calls for small scale and large-scale projects does not include a more simplified application process for smaller companies.

Recommendations:

- Mandate transparency from Member States on ETS revenue usage.
- Allocate at least 50% of ETS revenues to support energy-intensive industries.
- Continue and expand the Innovation and Modernisation Funds, but with streamlined application and support for proven, fast-deployment technologies.
- Administrative complexity and the application process to the ETS Innovation Fund should be streamlined or reduced to ease participation by smaller companies with limited resources and manpower, in particular for small-scale projects.

Conclusion

The EU ETS and MSR must evolve beyond their original design to support a climate-neutral and competitive European industry. For the aluminium sector, this means ensuring fair burden sharing, preserving competitiveness, and unlocking finance for proven technologies available on the market. A just and effective ETS reform post-2030 hinges on pragmatism, flexibility, and alignment with the industrial realities of Europe's strategic sectors and shared ambition to reach net zero by 2050.

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