CBAM IMPLEMENTATION: RULES ON THE METHODOLOGY FOR CALCULATING EMBEDDED EMISSIONS, THE ADJUSTMENT OF CBAM CERTIFICATES & THE CARBON PRICE PAID IN A THIRD COUNTRY

EUROPEAN ALUMINIUM RESPONSE TO THE CALLS FOR EVIDENCE

Brussels, September 2025

Background

We fully support the EU's climate objectives and the prevention of carbon leakage. However, CBAM presents specific challenges for the European aluminium sector, which is an energy-intensive, electro-intensive, and globally price-sensitive industry.

For aluminium, CBAM will not only lead to European producers losing their free ETS allocations: it will also raise the price for all aluminium transactions in the European market, including primary aluminium and scrap, whether imported or locally produced. Based on the "marginal" producer or importer of primary aluminium and thus the most carbon intensive, needed to meet the demand on the European market.

Aluminium production in Europe relies on over 50% of imports, and CBAM risks creating competitive distortions if the design does not fully reflect the EU ETS system, mirror carbon costs including the carbon costs that will be embedded in the regional market premium for aluminium on the European market going forward, and address circumvention.

Given these concerns, we urge the European Commission to "stop the clock" on CBAM for aluminium—pausing its implementation and the phase-out of free allowances until key improvements are made and the full impact on EU industry competitiveness is assessed.

Please find our latest position paper on the CBAM as well as the executive summary and full study by Ramboll on our website.

Our responses are based on previous position papers, stakeholder surveys, and independent analysis, with a view to ensuring that CBAM protects against carbon leakage and maintains a level playing field.

1. Implementing Act on Methodology

Single default value approach

European Aluminium strongly believes that the best option for assigning a carbon cost at the border is the single default value approach (mandatory use of default value). This is the only way to ensure a level playing field between European primary producers, recyclers, and manufacturers of semi-finished goods on the one hand, and importers on the other.

Under this approach, a default CBAM value would be applied to **all aluminium goods in CBAM scope** (Chapter 76 CN codes 7601–7616, except for 7602 and 7615), with no distinction between primary or secondary production routes and no distinction between different kinds of scrap. This value would be applied both to unwrought aluminium (CN 7601) and to aluminium used as a precursor in further products (CN 7601, 7603–7616).

The charge should consist of a single default value for direct emissions. It should be based on the average CO_2 emissions intensity of primary aluminium production in the country of origin (the country of smelt) and applied on the volume of aluminium contained in the imported product. If the country of origin has no primary production or if the country of smelt is not known, the world average should be applied. This default CBAM value should be revised periodically to reflect the decarbonisation of primary aluminium production in the respective countries.

Implementing this approach has **several advantages**:

- **First, it levels the playing field for European aluminium recyclers, semi-finished producers, and their downstream users**, as input metal costs will rise in line with the European Duty Paid Premium. This premium will increasingly reflect both CBAM costs on imported primary aluminium and the phase-out of free allowances for domestic producers, regardless of the origin or embedded emissions of the input metal.
- **Second it simplifies the reporting obligations for both importers and third country installations, as this would remove the requirement to report scrap content;**
- **Third, it avoids resource shuffling and misclassification** by ensuring that imports cannot selectively attribute "low-carbon" inputs while European installations continue to pay for all their emissions under the EU ETS and for all the emissions of primary aluminium production via the price building mechanism for aluminium;
- **Fourth, it reflects the ETS principle of full installation reporting**: the division into sub-installations based on different production routes and disaggregation into sub-products should not be permitted for aluminium under CBAM.
- **Finally, actual emissions reporting should be required only for the further processing of cast metal**, extrusion, rolling, and manufacturing of semi-finished aluminium products.

European Aluminium also stresses that **CBAM is not a carbon accounting tool**. Its primary purpose is to prevent carbon leakage. The proposed single default value system would simplify CBAM, facilitate its extension to downstream products, and prevent competitive distortions between European producers and importers.

If, despite these strong arguments, policymakers were to favour the use of actual emissions instead of a single default value:

- Emissions from input materials should always be attributed to the **entire manufacturing site**, rather than allowing selective attribution of low-carbon inputs for products intended for Europe. This would prevent a major circumvention loophole where third-country producers create separate low-carbon production lines for export to the EU while continuing high-carbon production for other markets.
- This could be done by creating new CN codes or aggregation categories of good for each production root.
- This would ensure **consistency in benchmarking**, by aligning different aluminium products with their specific production processes and carbon intensities.

- It would also allow for **integration into existing customs procedures**, reducing administrative burden, while ensuring **fair competition** between EU producers and imports of the same products.
- Finally, it would improve **data transparency and monitoring**, strengthening CBAM both as a border measure and as a driver of industrial decarbonisation.
- **CBAM Calculation for Goods 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.

Indirect emissions

We continue to oppose the inclusion of indirect emissions for aluminium in CBAM. It would create significant risks of circumvention and unfair competition, while further exacerbating the advantage that CBAM gives to non-European producers over domestic producers. It would also distort competition between materials and increase the risk of substitution and demand destruction. In addition, third-country exporters could direct renewable-based aluminium to Europe while European producers remain disadvantaged by higher CO_2 costs in EU electricity prices. Such a design would not reduce global emissions.

If indirect emissions were ever included, **only default emission factors based on the country-of-origin electricity grid should be permitted**, with exemptions strictly limited. Energy Attribute Certificates (EACs) such as Renewable Energy Certificates or Guarantees of Origin must not be accepted due to their circumvention risks. Given the challenges of verifying PPAs, EACs or other market-based instruments abroad, importers should not be given the possibility to claim lower actual values. These instruments neither reflect the electricity actually consumed nor address the indirect ETS costs faced by EU producers. Even the use of country-of-origin grid factors would understate the real indirect cost exposure of European industry, since marginal price-setting in the EU electricity market drives higher costs. In addition, due to the price building mechanism for aluminium in Europe, further measures would be needed for the aluminium sector in order to limit (i) the negative impact on the competitiveness of European aluminium recyclers and semis-finished products producers, (ii) the high risk of demand destruction and (iii) the high risk of material substitution.

2. Implementing Act on Free Allocation and Benchmark

Key Principles

CBAM must reflect EU ETS free allocation in order to maintain a level playing field between EU and non-EU producers. The adjustment methodology must ensure that imports are subject to the same carbon cost as goods produced in the EU.

The planned phase-out of free allocation should be reconsidered if CBAM does not succeed in preventing carbon leakage. European aluminium producers already face significant ETS cost pressure, and the combination of CBAM with a rapid removal of free allocation could undermine competitiveness and investment in Europe.

ETS indirect cost compensation must remain fully operational for aluminium, given the electro-intensive nature of the sector. A premature removal of indirect cost compensation, coupled with CBAM, would expose European producers to disproportionate costs without delivering global emissions reductions.

CBAM Benchmarks design

CBAM benchmarks must be designed with robustness equivalent to the EU ETS MRV system, while also reflecting the unique structure of the aluminium value chain.

- **Primary unwrought aluminium** has a clear ETS product benchmark (1.464 tCO_2/tAl for 2021–2025).
- **Other aluminium products** – including unwrought aluminium produced via the secondary route, castings, extrusions, or rolled products – currently fall under heat and fuel benchmarks.

Simplification is necessary and welcome, without putting European producers at a disadvantage. In practice, this means not applying the ETS product benchmark for primary unwrought aluminium to all aluminium products in scope of CBAM; otherwise, it would incentivise third country importers to "play" with any exemptions (e.g. below 5% alloying elements) or loopholes (e.g. scrap for secondary aluminium, cold metal for primary aluminium) to fall below the CBAM benchmark (multiplied by the CBAM factor) so that no CBAM cost is due at the border at all.

Further, **default CBAM benchmarks should be set**, **to ensure** that the cost at the border mirrors the competitive conditions faced by European producers and there is no circumvention or incentive to increase scrap content to avoid the CBAM fee.

As a pragmatic way forward, as well as to mirror the EU ETS MRV system, CBAM product benchmarks for aluminium processing could be derived by examining ETS installation-level data and identifying the **best-performing 10% of installations producing the relevant CN code** (excluding unwrought primary aluminium, which already has a product benchmark). This would provide a clear, data-driven method for defining CBAM benchmarks, while keeping them low enough to reduce circumvention incentives. However, these benchmarks would not be suitable for aluminium itself. For unwrought aluminium and aluminium used as a precursor, we strongly recommend applying a default value based on the emissions of primary aluminium production, in which case the primary unwrought aluminium benchmark can be applied to the respective share of emissions.

In addition, CBAM benchmarks should also be periodically updated to capture technological progress and ongoing decarbonisation efforts. Finally, CBAM benchmark design must be transparent.

Circumvention Prevention

Circumvention risks remain significant for aluminium, particularly where scrap content or production route declarations can be manipulated. Loopholes such as using small amounts of scrap to reduce embedded emissions below the CBAM benchmark must be closed.

The design of CBAM benchmarks must take into account:

- The pricing mechanism of aluminium on the European market, where Europe's import dependency and the European Metal Bulletin Duty Paid Premium mean that additional CBAM costs are passed through to all purchases, regardless of origin and embedded emissions.
- The need to avoid incentives for resource shuffling, whereby third countries send renewable-based aluminium to Europe and fossil-based aluminium elsewhere.

3. Implementing Act on Carbon Price Paid in a Third Country

It is essential that the rules for reducing CBAM obligations when a carbon price has already been paid in a third country ensure **strict equivalence with the EU ETS**. Recognition of third-country carbon pricing must never undermine the competitiveness of European producers or create loopholes that reduce the effectiveness of CBAM as a carbon leakage protection tool.

Recognition of carbon prices in third countries should not be based solely on the nominal carbon market price, but rather on the effective cost actually borne by producers. This requires a comprehensive assessment of the design of the third-country system, including the level of free allocation or exemptions granted, the type of cap applied, the use of offsets, and, critically, the robustness and transparency of monitoring, reporting, and verification rules. In order to maintain a level playing field, any compensation, rebates, or exemptions provided under third-country systems must be fully considered, so that only the net cost effectively incurred is recognised under CBAM.

Offsets and credits represent a particular risk. To mirror the EU ETS and to safeguard competitiveness, domestic or international carbon credits or offsets must not be recognised under CBAM unless and until such credits are accepted within the EU ETS itself. Allowing credits would provide third-country producers with compliance flexibility that European producers do not have. Should offsets or credits be recognised in the EU ETS in the future, CBAM recognition must only occur under the same strict integrity criteria and MRV requirements, ensuring comparability and avoiding circumvention.

The **certification of carbon costs** paid in third countries must be subject to rigorous oversight. Evidence must be verified by qualified and independent third parties, and the process must be transparent, consistent, and reliable. Conversion of third-country payments into euros must also be standardised, with clear and uniform rules on exchange rates applied across all CBAM declarants to prevent manipulation or inconsistency. Given the complexity of assessing diverse carbon pricing systems worldwide, the European Commission should prioritise its evaluations with a focus on those countries that export the largest volumes to Europe. This would ensure resources are targeted where CBAM's impact is most significant, while still maintaining a path towards a comprehensive global framework.

Ultimately, CBAM must remain a carbon leakage protection instrument, not a recognition mechanism for weaker or less effective foreign carbon pricing systems. Any reduction of CBAM obligations must be limited strictly to those cases where carbon costs are fully comparable to those faced by EU producers under the EU ETS. This is the only way to maintain the credibility of the mechanism and to ensure that it delivers on its core objective of protecting European industry from unfair competition while contributing to global emissions reductions.

For more information on European Aluminium's work on climate and energy related policies, all papers, external studies and memos are available at the "Climate & Energy Section" of our Website.

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