



GETTING THE EU ETS REVIEW RIGHT FOR ALUMINIUM

European Aluminium welcomes the Commission's ETS Review proposal and its separate proposal to adjust free-allocation fallback benchmarks for 2026–2030. Both are steps in the right direction, offering greater flexibility on carbon costs and supporting a more competitive path to industrial decarbonisation.

However, more is needed. European aluminium producers are among the most decarbonised globally, but face high energy and carbon costs they cannot pass on in a globally priced market. Many technologies needed for deep decarbonisation are also not yet available at commercial scale.

The ETS must support industrial decarbonisation and investment in Europe, not shift production and emissions abroad.

SIX CRITICAL FIXES TO THE EU ETS

1

Preserve effective carbon-leakage protection

Indirect cost compensation protects electricity-intensive aluminium smelters from ETS costs passed through power prices, while free allocation protects installations against direct carbon costs. Both remain essential as CBAM has not yet proven that it can provide equivalent carbon-leakage protection.

OUR ASKS:

- Maintain indirect cost compensation until 2040, with no new conditionality requirements.
- Put the free-allocation phase-out on hold immediately until the necessary CBAM fixes are in place, CBAM is proven effective and a comprehensive export solution exists.
- Ensure the Temporary Decarbonisation Fund covers direct ETS and CBAM-induced input costs, including for non-ETS exporters.

2

Don't make free allocation an investment mandate

The Commission proposes making free allocation conditional on investments equivalent to at least 100% of its economic value. This could weaken carbon-leakage protection where viable technologies or enabling infrastructure are unavailable, or where investment costs exceed the value of the allocation.

OUR ASKS:

- The new conditionality regime should not apply to aluminium. If conditionalities remain, appropriate derogations must be introduced, including where the necessary decarbonisation technologies or enabling infrastructure are unavailable. The 20% withholding should be removed in such cases so that installations retain their full allocation.

3

Develop fit-for-purpose aluminium benchmarks

Mechanical benchmark reductions do not reflect the technological reality of aluminium production. This is particularly problematic for alumina refining, aluminium recycling, casthouses and semi-fabrication, which are covered by general heat and fuel benchmarks that compare installations operating under very different technical conditions. Where benchmark reductions are not based on the performance of genuinely comparable plants, they simply increase carbon costs without unlocking additional emissions reductions.

OUR ASKS:

- Adjust the 2026–2030 heat and fuel benchmarks to avoid disproportionate reductions in free allocation.
- Establish dedicated post-2030 benchmarks for alumina refining, aluminium recycling, casthouses and semi-fabrication.
- Retain dedicated product benchmarks for primary aluminium and pre-bake anodes.

4

Maintain a stable and predictable carbon market

We welcome the proposed Linear Reduction Factor (LRF) changes and the lower Market Stability Reserve (MSR) intake rate of 12%. However, the proposed LRF trajectory should be adjusted to better reflect technology readiness and give industry greater predictability.

OUR ASKS:

- Apply an LRF of 1.7% from 2031–2035, rising to 3.7% thereafter.
- Remove the automatic 2.7% LRF fallback linked to international credit availability.
- Maintain the 12% MSR intake rate.
- Remove the annual reduction of MSR thresholds and release volumes.
- Allow MSR allowances to return to the market in case of scarcity or liquidity constraints.
- Reform Article 29a to respond more effectively to excessive carbon-price increases.

5

Provide targeted flexibility for residual emissions

Some aluminium emissions will remain difficult to eliminate until new decarbonisation technologies become commercially viable at scale. High-integrity international credits can provide targeted flexibility for these residual emissions.

OUR ASKS:

- Allow limited use of high-integrity Article 6.4 credits for residual emissions, subject to strict EU safeguards and no double counting.
- Launch a pilot before 2036.
- Allow all ETS installations to use EU-certified permanent carbon removals for compliance.

6

Reinvest ETS revenues in industrial decarbonisation

The 50% earmarking is welcome, but ETS revenues must reach industries facing the greatest decarbonisation and carbon-leakage challenges. Properly designed, the Industrial Decarbonisation Bank and Investment Booster can help make investments viable.

OUR ASKS:

- Direct the 50% earmarking towards energy-intensive industries with a sub-target for CBAM sectors.
- Dedicate funding to energy-intensive/CBAM sectors and design sector-specific calls for the aluminium industry.
- Keep access conditions workable and allow EU and national funding to be combined.