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Input to the public consultation on the proposal for a revision of the EU Emissions Trading System - COM(2015)337/F1

Alcoa welcomes the opportunity to submit comments to the proposal to revise the EU Emissions Trading System (ETS) for the period after 2020, which was published on July 15th 2015.

For the ETS to be an effective cornerstone of the EU Climate Change Policy, the core objective of this reform must be that of delivering a more balanced and predictable energy, climate and competitiveness long-term regulatory framework. This requires addressing some of the structural flows of the ETS that are undermining the very existence of an aluminium industry in Europe, as the sector is both highly electro-intensive and a global price taker with no possibility to pass on the ETS direct and indirect costs. To this end, the following aspects of the Commission's proposal require amendments during the legislative process in the European Parliament and Council.

Indirect ETS costs. An EU-wide system shall be put in place to fully off-set CO2 costs pass-through in electricity prices at the level of the most efficient installations at risk of carbon and investment leakage. Maintaining the current system of compensation based on national state aid schemes, as proposed by the Commission, will leave highly electro-intensive industries exposed to increasing pass-through carbon costs, continue to generate competitive distortions in the internal market and, ultimately, fail to create the predictability needed for investments. Furthermore, the principle of a partial compensation of indirect costs shall be deleted to ensure full compensation of best performers at risk of carbon and investment leakage.

Benchmarks. Benchmarks should be revised periodically based on updated actual data, for instance twice during the next trading period 2021-2030, in order to effectively take into account the sectors' specific technological improvement potentials. The proposal for an automatic review with a -1% annual reduction does not reflect the reality and

specificities of the covered sectors. Instead of encouraging investments in new technology and process improvements, unrealistic benchmarks would discourage them further.

Carbon leakage. A sector's ability to pass on the ETS direct and indirect costs should be a key parameter to assess its exposure to carbon and investment leakage, alongside the sector's level of electro-intensity. Aluminium is a globally priced commodity on the London Metal Exchange and cannot pass on any EU regulatory costs to customers. The proposal, however, fails to recognize that globally priced electro-intensive industries are the most exposed to carbon and investment leakage and that they should be credited with full compensation for ETS costs until global efforts in tackling climate change lead to similar costs for EU industries and for their competitors.

Auctioning share. Best performers shall receive full compensation for both direct and indirect ETS costs. The proposal to introduce a fixed share of auctioned allowances (57%) sets a limit on free allocation to carbon leakage sectors, thus even best performers are at risk of facing undue carbon costs, despite the clear guidelines of the European Council to prevent a similar outcome.

In conclusion, the proposed revision of the EU ETS Directive needs substantial improvements to ensure that carbon leakage provisions for direct and indirect ETS costs are effective, provide full compensation to the most efficient installations and, in the specific case of indirect costs, are concretely available to the eligible sectors in all member states. We look forward to further engage on an open and constructive dialogue with all EU institutions in the context of the legislative process in the coming weeks and months.