EUROPEAN ALUMINIUM

European Aluminium Written Answer to European Commission public consultation on the proposal to revise the EU Emission Trading System Directive – (COM 2015) 337

7 September 2015

European Aluminium is pleased to participate in this public consultation and share its main views on the Commission's proposal adopted on the 15 July 2015. We believe that the current ETS reform should represent an opportunity to articulate a more balanced and predictable energy, climate and competitiveness long-term regulatory framework. We consider ETS as one of the cornerstones of European climate change policy and, if well implemented, the most cost-effective way to reduce carbon emissions. A robust ETS reform is also key for our ambitions to deliver in the upcoming COP21 negotiations in Paris. With our submission, we intend first to present our overall position and then define five different areas where we foresee an enormous potential for improvement.

Our position in four (4) bullet points

1. Our main aspiration is to benefit from a predictable, workable and balanced full EU-wide compensation system for indirect emissions costs. The revised ETS legislative text should clearly define a Pan-European mechanism with concrete deliverables and thus ensure a proper solution for a pure EU-driven policy such as ETS.

2. Benchmarks' revision should be done periodically based on actual historic performance. Automatic reductions is neither viable nor convenient.

3. Both direct and indirect compensation mechanisms should be treated equally and based on actual production and realistic benchmarks excluding unrealistic automatic reduction factors based on caps, availability of allowances, etc. As both direct and indirect emission carbon costs are both a result of EU ETS and harmful for our competitiveness, actual production for compensation is the only methodology which provides real incentives for investments, improves efficiency and increases production. The proposed time lag between relevant production and compensation removes these incentives and has proven to be a reason for continued ineffective production for some commodities.

4. The main criteria for eligibility to carbon leakage protection should be the sectors' emission and electricity intensity and its ability to pass on costs into product prices.

European Aluminium's Reform Package: a new ETS architecture requires a courageous regulatory fix

We understand and appreciate European Commission's attempt to define a more predictable and effective EU ETS in order to accelerate the decarbonisation of the economy. While this overall objective is necessary to reach EU's GHG targets by 2030, we have identified structural

elements in the architecture of the revised ETS system that will not deliver positive results for both sustainability and competitiveness of the European industry.

Given the complexity and several regulatory reforms that ETS has already gone through, we would like to encourage the European Parliament and Council of Ministers to make a thorough assessment and focus on the implementation of a courageous reform programme in the following areas:

1) Auctioning Rules: Fixing the auctioning share at 57% could pose important risks for the industry. Availability of free allowances to carbon leakage industries will be reduced at a higher pace than expected efficiency improvements. To incentivise the industry and promote growth, free allocation up to the benchmark level should be obtained without supply limitation.

2) Benchmarks: The proposal intends to tight benchmarks with a -1% annual reduction. While we support an improvement of the current benchmarks, we do not see how this amendment will reflect the reality of the industries involved. Unrealistic and automatic reduction will only prevent the companies from considering Europe as the economy to invest in. Instead, we would strongly recommend to perform new benchmarking exercise every five years with updated actual data at the beginning of the trading periods (i.e. 2021-2026).

3) Indirect compensation: Although the proposal recognises the challenges that indirect costs can have in the industry in line with the Council conclusions (24 October 2014), there is no EU-wide compensation mechanism introduced in the text. Today, the level of uncertainty and lack of level playing field to compensate our industry is a source of major investment risk. Our industry is extremely concerned about the implementation of the current national-driven mechanism and calls co-legislators to consider an EU-Wide system which could off-set carbon costs pass through in electricity prices at the level of the most efficient installations. In short, the upcoming ETS reform should ensure EU-wide solutions for the industries involved.

4) Carbon Leakage groups: The proposal keeps two groups and introduces a new methodology/formula which is not in line with our industry interest. We have serious doubts about the trade element and the lack of legal formulation on the fact that we are an international price taker (See further: London Metal Exchange). An alternative policy where aluminium and other global price takers can calculate their trade exposure at 100% should be considered.

Concluding remarks

Our material is used in a number of low-carbon technologies that are key to achieve EU's climate and energy goals: low-emissions transport, energy-efficient building, renewable energy production and many others. That's why, European Aluminium is convinced about the importance of this reform to achieve both economic growth and decarbonisation targets. We do not see two competing goals but an increasing necessity to develop a holistic approach where predictability and effective implementation should become a reality.

We therefore urge the European Parliament and Council of Ministers to consider the proposals made in our reform package which will ensure sustainable and circular economic growth by keeping European innovation across our unique value chains.

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