Eurometaux
European Association of Metals

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Post-2020 reform of the EU Emissions Trading System

Five recommendations to make it work for indispensable metals

Introduction

The European Commission has proposed to revise the EU's Emissions Trading System (ETS) as part of the wider 2030 climate and energy policy framework and a global instrument to tackle climate change.

The European non-ferrous metals industry shares the EU's objective to fight climate change through the ETS as central instrument, while at the same time promoting competitiveness, growth and jobs. In that respect, the European Commission's introduction of supporting measures to innovation is strongly welcomed, provided that complementary measures are put in place to create the right conditions for these innovations to take place in Europe.

With that in mind, in this policy paper Eurometaux makes five proposals to ensure that ETS will protect the competitiveness of best performers within energy-intensive industries, and prevent carbon leakage.

Our five recommendations

1. Prevent undue direct and indirect carbon costs for best performers

The final 2030 Climate and Energy policy framework should reflect the 2014 EU Council conclusions: "both direct and indirect costs will be taken into account" & "the most efficient installations should not face undue carbon costs".

2. Ensure equal treatment of indirect emissions, compared with direct emissions

Direct and indirect carbon costs are a result of the EU ETS. Both are harmful to our industry's competitiveness, and must be treated equally in order to prevent carbon leakage. Therefore, a harmonised and stable framework for full compensation of indirect CO_2 costs by all Member States should be implemented.

3. Introduce "price-taker" as a criteria for trade intensity under the Carbon Leakage list

Energy intensive industries with global pricing mechanisms cannot pass additional regulatory costs onto customers. Those industries should therefore be put at the highest protection level when determining carbon leakage exposure.

4. Revise benchmarks in a transparent and tailored manner

When revising ETS benchmarks, it remains important to take sectoral differences into account:

- Real data should be used when revising product benchmark levels, as collected/verified by trade federations
- The Commission's proposal for an average 1% path reduction per year should be applied as an option, only for those sectors requesting a simplified approach.
- All benchmarks should reflect technical and economic feasibility
- Fallback benchmarks (heat and fuel) should retain their allocation principles
- The principle of 97% of historical emissions should be kept for all sectors with process emissions approach.

5. Take a flexible approach when determining production levels

In order to stimulate new investments, flexible approach should be used for determining production levels (using most recent production data), and the threshold for expansion levels eligibility (new investments) should be lowered to 3-5%.

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Competitiveness impacts from the EU Emissions Trading System

European metals producers are uniquely affected by the EU Emissions Trading System:

- **Electro-intensive sectors, facing high indirect costs**

Primary metals production is energy-intensive. In particular, metals take a lot of electricity to produce, making EU metals producers among the most concerned by indirect CO_2 costs from the Emissions Trading System.

In the case of aluminium, it has been demonstrated that the indirect costs of the EU ETS have represented in the past years half of all EU regulatory costs, per tonne of metal produced. However, in order to achieve the new targets, and with the expected CO2 price increases, indirect costs may likely rise, up to 20% or more of the metal selling price.

- **Price-takers, due to global pricing mechanisms**

Non-ferrous metals are globally priced commodities, regulated by the London Metal Exchange or other mechanisms. That makes it impossible for European metals producers to pass additional regulatory costs onto consumers and jeopardizes their global competitiveness.

- **Reaching scientific limits of efficiency improvements**

Although significant investments have been made to lower energy consumption, chemical laws state that a minimum amount of electricity will always be required for metals production. Those limits are now being reached. European zinc production, for example, is already at 93-99% of its maximum scientific efficiency.

Further reductions will require long-term breakthrough technologies. Industry is willing to further invest in this direction, provided that adequate policies are put in place to support these investments in Europe.

Non-ferrous metals: proven value for Europe

- **High socio-economic importance**
  - 500,000 direct employees, with €120bn annual turnover
  - Over 1/5 of global metals production
- **Central to European innovations**
  - Low-carbon transport – *Electric cars are powered by metals-containing batteries*
  - Renewable energy sources – *90% of a wind turbine is metal*
  - Sustainable buildings – *Over 95% of metals in buildings are recycled*
  - Resource-efficient packaging – *27.5bn aluminium beverage cans are recycled each year*
  - IT applications – *Your phone contains over 25 different metals*
- **The core of a circular economy**
  - 70-95% of base metals are recycled (again and again) from cars, buildings and packaging
  - Recycling of pure metals scrap uses up to 20 times less energy compared with primary metal production
  - Recycling metals from complex products such as e-waste prevents the loss of valuable resources from the European economy
- **Leading standards of sustainability**
  - Since 1990, Europe's aluminium industry has reduced direct CO2 emissions by 53%
  - European copper and nickel producers have lowered their energy consumption by 60% and 48%

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