



To:

European Commission,

1049 Bruxelles/Brussel

BELGIQUE/BELGIË

Marousi, April 1st, 2020

Mytilineos is one of the largest industrial companies in Greece, with activities in numerous sectors (*including Metallurgy, Electricity generation and supply, Gas trading, and EPC works*). One of our key lines of business concerns the operation of the largest vertically integrated alumina/aluminium production facility in Europe, where roughly 185,000 tonnes of primary aluminium are produced annually. The company is also making significant strides in the field of aluminium recycling, having recently completed the takeover of 'EPALME', the largest independent producer of secondary (recycled) aluminium in Greece. This enables Mytilineos to produce another 11,000 tonnes of recycled aluminium each year, with plans to further scale up the production capacity so as to reach 50,000 tonnes by the year 2022.

As acknowledged in the consultant's report that accompanied the Commission's recent proposal for the update of the EU ETS State Aid Guidelines¹, aluminium is one of the sectors (*if not the sector*) with the highest exposure to the risk of carbon leakage. The primary aluminium production process is fully electrified, and electricity costs tend to account for over 40% of total production costs². Therefore, primary aluminium producers are particularly exposed to indirect EU ETS costs (*i.e. carbon costs passed on to consumers through electricity prices*). This reality is compounded by the fact that aluminium prices are set in global markets (*most notably the London Metal Exchange*), meaning that cost increases cannot be passed on to consumers without losing significant market share to producers outside Europe, who do not face the same costs.

As a result, **carbon leakage in the aluminium sector is already happening**. Europe's aluminium industry is committed to decarbonisation (*the carbon intensity of primary aluminium*

¹ https://ec.europa.eu/competition/consultations/2020_ets_stateaid_guidelines/index_en.html

² [European Commission](#), 2018. Composition and Drivers of Energy Prices and Costs: Case Studies in Selected Energy Intensive Industries – 2018.

production in Europe has decreased by 21% since 2010 and by 55% since 1990), but European production is increasingly being displaced by carbon-intensive production in other regions of the world (especially China), **leading to a net increase in global emissions**. The carbon footprint of producing primary aluminium in China is, on average, three times higher than the equivalent footprint of producing the same metal in Europe³. While the EU has lost 36% of its primary smelting capacity since 2008 (due to plant closures and curtailments), China's share of the global market has risen rapidly, from just over 10% in 2000 to almost 60% today⁴. Although global demand for aluminium is increasing, investment in new capacity aimed at covering this new demand is happening in other parts of the world instead of the EU (*investment leakage*). As correctly noted by the Commission in the Inception Impact Assessment for the CBAM, as long as this situation persists, "there will be no reduction in global emissions, and this will frustrate the efforts of the EU and its industries to meet the global climate objectives of the Paris Agreement". Of course, **if the EU ends up further increasing its 2030 GHG reduction target to 50-55%**, then the reality of carbon leakage will be exacerbated, and it will be even more important for the EU to enhance its carbon leakage measures.

In light of the above, we are pleased that both the Green Deal Communication and the Inception Impact Assessment for the CBAM acknowledge the problem of carbon leakage, and that the Commission is proposing a new measure aimed at tackling it (i.e. the CBAM). **However, we have serious reservations about whether a CBAM is the most suitable measure for addressing carbon leakage**, especially if it is considered an "alternative" to the existing measures. Although the current carbon leakage measures (*and especially indirect cost compensation*) are still in need of improvement, they offered a crucial minimum level of protection over the course of Phase III of the EU ETS, and therefore replacing them could lead to absolutely catastrophic consequences for Europe's energy-intensive industry.

The main problem relates to if and how a CBAM could be applied to sectors characterised by a high level of electrification (e.g. aluminium). This is likely to become a problem for more and more sectors in the future, given that the Commission's 2050 Long-Term Strategy stresses the importance of electrifying as many industrial processes as possible if we are to have any chance of reaching climate neutrality. While it may be possible to estimate the Scope 1 emissions that are directly attributable to an imported product with a reasonable degree of accuracy (*e.g. by using benchmarks, though this might also pose challenges and risks of circumvention*), it is unclear how the indirect footprint (*i.e. the carbon content of the consumed electricity*) could be estimated. Furthermore, in order to effectively guard against the threat of carbon leakage, indirect carbon costs are actually far more important than the indirect carbon emissions attributable to the imported product. This is because indirect costs and indirect emissions are not directly correlated, due to marginal pricing in European power markets. Electricity prices are set by a marginal unit, which tends to be a thermal power plant that faces significant carbon costs. Therefore, all electricity prices in Europe contain an implicit carbon cost (*as set by the marginal unit*), regardless of the actual carbon footprint of the consumed electricity. As a result, even zero-carbon electricity contains an implicit carbon cost, and this fact was recognised by the Commission in its recent proposal for the update of the EU ETS State Aid Guidelines. Thus, a CBAM based on the indirect emissions attributable to an imported product would not be capable of effectively guarding against

³ [European Aluminium](#), 2019. Vision 2050; European Aluminium's Contribution to the EU's Mid-Century Low-Carbon Roadmap.

⁴ [World Aluminium](#), 2020. Primary Aluminium Production.

carbon leakage, which is the result of indirect costs rather than indirect emissions. If a CBAM is not capable of creating a level playing field with regard to indirect costs (which is highly doubtful, given the massive difference in the design and functioning of power markets in third countries), then it cannot guard against the risk of carbon leakage, and therefore the current system of indirect cost compensation would simply have to be maintained.

Furthermore, in order to avoid the creation of serious distortions along the aluminium value chain (including incentives to move primary production outside Europe), a CBAM would necessarily have to cover every product, from primary aluminium right down to final products that contain aluminium. This would be a logistical nightmare, particularly implementing robust rules that are capable of safeguarding against any possible circumvention of the CBAM.

In relation to the above point, any CBAM would necessarily have to be accompanied by a rigid system for calculating the carbon content of imported products, in order to prevent third-country exporters from 'carbon re-branding' (*thereby essentially bypassing the CBAM and completely undermining its effectiveness*). For example, 90% of Chinese primary aluminium production is based on coal-fired electricity generation, whereas the remaining 10% is based on hydropower⁵. Therefore, without a robust disclosure system, a Chinese exporter could simply declare that its aluminium was produced using hydropower (*even if this isn't true*), in order to bypass the CBAM. Third countries would be incentivized to re-route all their 'cleaner' production to Europe (*displacing European production*), while continuing to cover demand across the rest of the world using carbon-intensive production. This would actually lead to an increase in global emissions, i.e. carbon leakage (the very issue that the CBAM is meant to address!).

Third, while a CBAM could potentially be a useful tool for creating a level playing field within Europe, it is questioned how the measure could ensure the competitiveness of European exports⁶. **The EU-28 exported €1.96 trillion worth of goods in 2018**⁷. Although not all of these exports relate to ETS sectors, it is clear that jeopardising the competitiveness of European exports would bring about untold economic harm for both European businesses and Europe as a whole. One way to solve this problem would be to offer some form of rebate to European exporters; however, it is unclear whether such a solution would be compatible with WTO rules (*and especially Art. 20 GATT*). WTO-compliance must be ensured at any cost, due to the disastrous consequences that a successful third-country WTO appeal would have for the European economy and -more generally- for investor certainty in Europe. Of course, even if the CBAM is fully WTO compliant, other major economies may still decide to implement retaliatory measures against European exports, and this threat should be fully assessed before implementing a CBAM. Trade wars rarely result in a winner on either side, whereas protectionist measures usually have a negative effect on the market implementing them⁸.

Therefore, before implementing any CBAM, it is absolutely crucial to ensure that all of the above issues have been resolved, and that the CBAM has been proven to work at least as well (*if not better*) than the current carbon leakage measures. Introducing a new "system", replacing

⁵ <http://www.world-aluminium.org/statistics/primary-aluminium-smelting-power-consumption/>

⁶ As explicitly mentioned in the inception impact assessment, "A carbon border adjustment measure would apply to imports into the EU".

⁷ Eurostat, 2020. International trade in goods.

⁸ For example, an analysis conducted by the U.S. International Trade Commission (ITC) concluded that the tariffs introduced by the U.S.A. on imports of steel in 2002 had a "central estimate of a welfare loss of \$41.6 million", without taking into consideration the \$2 billion in sanctions that the WTO would have imposed on the U.S.A. if the tariffs had not been lifted.

existing measures, should also seek to **simplify**, rather than complicate the EU economy's interaction with trade partners on account of climate policies, including developing countries, which are genuinely not in a position to "synchronize" with the ambitious targets set by the EU. Moreover, it should ensure smooth implementation within the EU but also member-states, taking into consideration that existing carbon leakage measures have matured over-time and -though not perfect- significant improvements have been achieved, boosting the efficiency of the ETS system as the flagship tool of the EU in its climate efforts. This may require some form of overlap period (*where both the CBAM and the current measures are applied*), in order to ensure that the CBAM 'matures' and is actually capable of working as intended. However, if (*as seems likely*) the above issues cannot be resolved, then Europe should instead focus on improving the current carbon leakage measures, in order to ensure that the competitiveness of European industry is maintained while it continues its efforts to decarbonise, thereby also avoiding the risk of catastrophic carbon leakage (*which would completely undermine the achievement of Europe's climate goals*).

As a closing remark, it should be stressed that making the best of "strong international diplomacy and leadership" acknowledged as "the EU's main instruments to achieve higher climate ambition globally" largely depends on Europe (re)establishing itself globally as a very solid and significant producer of raw materials and goods, rather than mainly an importer or consumer of goods; leading by example can be far more efficient if our industry is indeed a frontrunner in climate change mitigation, yet also ranks amongst the most competitive industries in the world. Otherwise, the EU's "importance" in determining global climate policies will be compromised, a fact which will have dramatic adverse effects on global emission reduction.

Yours sincerely,
For MYTILINEOS S.A.

Nick Keramidas
EU & Regulatory Affairs Director