

Factsheet – Key findings of the CEPS Cumulative Cost Assessment of EU rules

This document summarises the key findings of the study assessing the cumulative cost impact (direct, administrative, and compliance costs) borne by the aluminium industry and attributable to EU energy, climate change, environment, competition, trade and products policies implemented over the past ten years (2002-2012). This assessment was made for the European Commission by the Centre for European Policy Studies (CEPS).

When fully exposed to EU rules, the European aluminium industry incurs costs of up to 11% of total production costs (including raw materials) and margins are compromised.

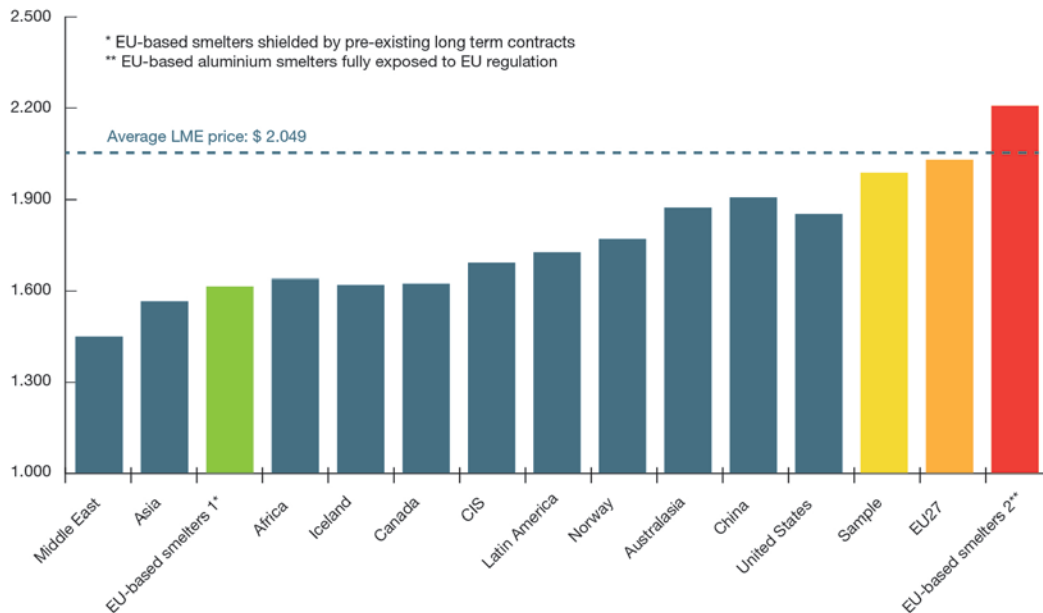
- Plants fully exposed to EU climate and energy policies have seen their production costs rocket up to €228 per tonne of final product – 11% of total production costs including raw materials (close to 20% excl. raw materials) – and are globally the least competitive.
- Plants less exposed to EU energy and climate policies – i.e. those which are still shielded by pre-existing but soon-to-expire long-term energy contracts face EU regulatory costs of €27 per tonne.
- For most exposed smelters, the majority in the EU, the regulatory costs incurred by EU producers originate from the passing-through of energy costs and surcharges to support renewable and related grid costs (49%), Emissions Trading Scheme (ETS) indirect costs embedded in electricity bills (42%), and environmental costs (9%).
- The cumulative cost of EU rules and regulations ranged from 23% of profits in 2006 (the most profitable year) to 242% in 2011, when margins were lower because of the crisis.

Aluminium: an industry that cannot pass on costs to the consumer

Aluminium is globally priced on the London Metals Exchange (LME). Managing production costs below an average LME quotation is therefore essential to maintain margins, fund investments, and secure the competitive position of the industry in Europe, since extra costs cannot be passed on to customers. Together with raw material costs (alumina), electricity is the main production cost for aluminium (from 30% to 40% of smelters' operating costs). Thus, primary smelters are therefore extremely sensitive to the degradation of power supply costs.

The CEPS assessment clearly demonstrates that EU policies and legislation have a counterproductive impact on the industry's competitiveness and make assets exposed to EU rules unsustainable.

Average business cost per tonne of aluminium 2012 (\$ 2012)



The full costs of EU policies have made industry uncompetitive

- EU smelters procuring electricity under EU market rules face the maximum exposure to indirect EU ETS and network costs. Their regulatory costs amount to more than a third of the competitiveness gap with the lowest cost producers in the Middle East, one of the biggest exporters to the EU.
- For plants procuring electricity via long term contracts signed before the introduction of the ETS, the cumulative cost of EU rules is currently more limited. As soon as these long-term contracts expire, the cost impact for those primary aluminium smelters is expected to be much higher.
- The impact for the downstream sector is more limited in absolute terms, but when compared to profit margins, it is still significant. This has been particularly evident during the crisis, as margins have been further reduced. Secondary producers (remelters and refiners), which in most cases are SMEs, are faced with ETS indirect costs as high as €2.44 per tonne and environmental legislation costs of up to €6.06 per tonne. These values are y €7.09 and €3.06 per tonne for semi-fabricators (rollers and extruders respectively).

EU regulatory costs for primary aluminium production in Euros per tonne

Policy area	Specific policy	Non-exposed EU smelters (long term contracts)	Smelters fully exposed to EU regulatory costs
Climate change	ETS indirect	€0	€110.92
Energy	Transmission	€0	€48.67
	Renewable Energy Sources (RES)	€5.3	€46.09
Environmental policies	Emissions, pollution prevention, waste...	€20.68	€20.68
Products	The EU's chemical legislation (REACH)	€1.34	€1.34
TOTAL		€27.32	€227.7

Climate change policies

The aluminium industry was not directly covered by the EU ETS until 2013. Direct ETS costs only occurred from 2013 and are therefore not covered by the CEPS study.

Since 2005 plants buying electricity from the market under EU rules have been exposed to ETS costs which are passed on by electricity producers (so-called indirect ETS costs). The ETS indirect costs alone are jeopardising the primary industry's competitiveness. Compensation schemes do not provide full compensation and only apply in a few EU Member States.

Energy policies

In addition, the CEPS study has quantified other impacts of EU policies on energy costs, mainly through transmission costs and the cost of Renewable Energy Sources (RES) support schemes.

Smelters with no long term contracts face high levels of electricity costs, demonstrating the failure so far of the internal market to reduce prices through liberalisation. In the name of liberalisation and competition, the EU has tried to limit long term electricity provision contracts, which are themselves very common in the rest of the world, to ensure investment, stability and predictability for large consumers.

RES put additional burdens on the EU industry, as support schemes increase the price of electricity. However, few Member States have put in place schemes to protect their industrial activities by exempting the sector from RES costs. Those schemes are under investigation by the European Commission.

Environmental policies

Aluminium producers in Europe are confronted with a variety of direct costs to comply with pollution prevention and control (IPPC) legislation. Together with administrative costs, this adds an estimated €21 to the price of each tonne of aluminium produced.

It should be noted that these costs will further increase in the near future as some of the requirements from the new best available techniques reference document (BREF) will become stricter in the new Industrial Emissions Directive.

Product policies – REACH

CEPS also looked into the specific costs for the sector of implementing the EU's chemical legislation (REACH). So far, the implementation of REACH represents an administrative cost of €45.1 million for the aluminium sector. This amount does not take into account the management of REACH's authorisation process.