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August 2012

"**Mid-term review of the Europe2020 flagship initiative on Industrial Policy**"

A response from the European Aluminium Association: www.alueurope.eu

Introductory remarks

The European Aluminium Association (EAA), representing Europe's aluminium producers, transformers and recyclers, is committed to ensuring the long term sustainability of aluminium as a key material for European consumers and hundreds of – mainly small and medium-sized – aluminium companies and their employees. In this perspective, we would like to voice the following comments and concerns regarding the EU industrial policy.

Even in the digital age and in the era of knowledge and services, manufacturing industries remain an essential foundation of the economy. Apart from providing a substantial part of Europe's employment and economic output, manufacturing industries are also at the root of the infrastructure and equipment through which knowledge is developed and transferred, services are invented and provided. The prerequisite to maintaining and further expanding Europe's knowledge-based, competitive and green economy is to preserve the industrial base that provides the physical foundations of such an economy, and actually delivers on Europe's ambitions in research, development and innovation.

In 2010, the aluminium industry warmly welcomed the EU Commission's flagship initiative of the Europe 2020 strategy, setting out a strategy to boost growth and jobs by maintaining and supporting a strong, diversified and competitive industrial base in Europe. Two years after its adoption, however, the adequate framework conditions needed by the European aluminium industry to maintain a competitive position on the global stage are still not there.

The development at EU level of a consistent and effective industrial policy addressing the entirety of our industry's value-chain has become today and more than ever the essential condition for industry's survival in Europe.

Last but not least, while welcoming a number of positive initiatives launched under EU's renewed innovation policy, EAA would like to stress that innovation alone cannot replace a sound industrial policy, just like the green economy of the future cannot exist without the manufacturing industry.

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Policy-related factors for the competitiveness of business

I/ Energy and climate policies

II/ Resource efficiency including recycling

III/ International market access and global competition

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I/ Energy and climate policies

The European aluminium industry is increasingly exposed to costs arising from the EU's climate and energy policies.

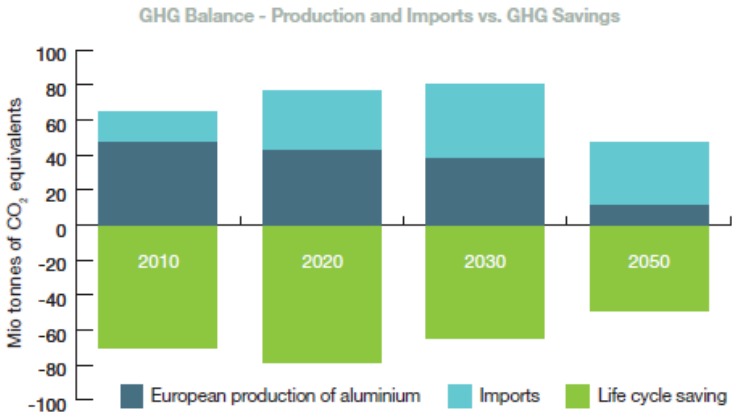
As of 2013 the aluminium sector will enter the EU Emission Trading Scheme (ETS) for greenhouse gases. The aluminium industry has already worked successfully to reduce its greenhouse gases emissions: voluntary industry initiatives and continuous technological advances have resulted in lower greenhouse gas emissions. CO_2 emissions have been reduced by 50% and PFCs emissions by 94% with reference to the 1990 levels[1]. Reducing resource use has always been a key driver that led to "considerable efforts to increase the energy efficiency of its processes" as acknowledged by a study commissioned by DG Enterprise & Industry on the "Competitiveness of the EU Non-ferrous Metals Industries"[2].

The industry has also addressed its responsibility for greenhouse gas emissions by consistently reducing energy use. Greater efficiency in the production process is constantly sought, especially as energy represents the most significant share in production costs (ranging from 35-50%).

Moreover, from a life-cycle perspective, the use and recycling of aluminium products helps reducing the overall greenhouse gases emissions. Aluminium has always been used in applications (transportation, building, packaging) where weight saving and energy efficient solutions are essential. The sectors' total emissions are more than compensated for by the emission reductions obtained through the use of aluminium in surface transport. The aluminium used for the production of the vehicles in this sector during one year saves ~70 million tonnes of CO_2 during the life time of the vehicles only due to the effect that lightweighting has on the energy consumption. To this we should add the emissions reductions from packaging (through longer shelf life) and building (participation in new and renovated energy efficient buildings).

[1] EAA "Sustainability of the European aluminium industry 2010": www.alueurope.eu/sustainability/sustainability-indicators/

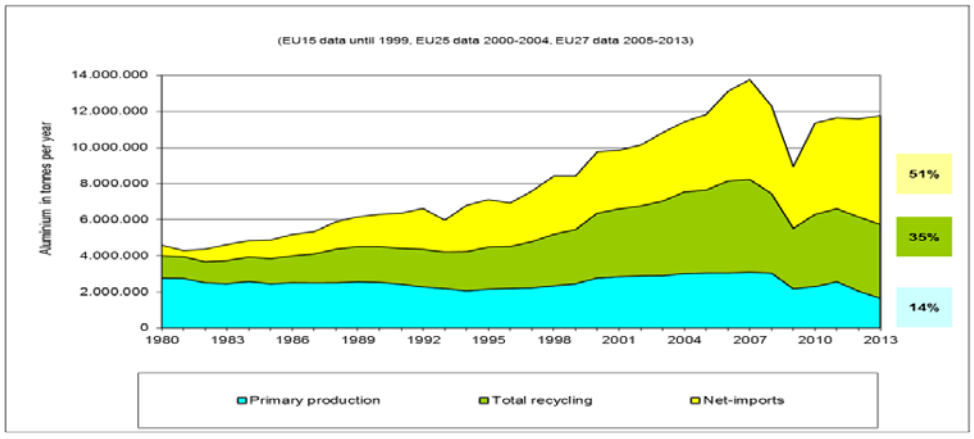
[2] Ecorys, "Competitiveness of the EU Non-ferrous Metals Industries", FWC Sector Competitiveness Studies - Final Report



Note: The savings of specific CO_2/kg aluminium, attributable to aluminium in automotive and transport applications is projected to decline after 2030, owing to increased efficiency of engines and power trains.

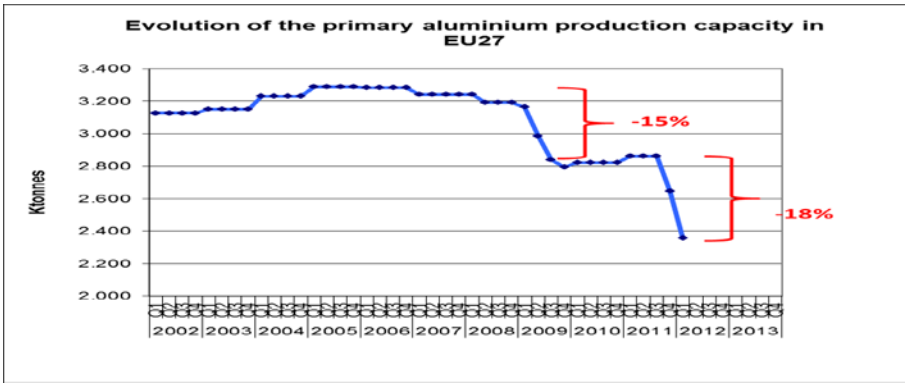
❖ <u>Growing carbon leakage vs. sound industrial and energy policies</u>

It is a fact that 1/3 of the aluminium smelter capacity in EU has closed since 2009. This negative trend is mainly attributable to the ETS related CO_2 cost embedded in electricity prices and the uncertainty regarding the compliance of long term electricity contracts with EU competition rules. Therefore the EU-27 becomes more and more dependent from aluminium imports.



Share of aluminium needs imported in EU27

This trend risks to be amplified by the fact that the remaining capacity is facing the expiry of its long term electricity contracts and is consequently under severe threat of closing production.



EAA has for long advocated that the EU ETS had negative effects on the aluminium industry since it started because of the pass-through of CO_2 costs into electricity prices (see part III/ "International market access and global competition").

Carbon leakage occurs when industry is closed down in Europe while production is increased in areas with less carbon constraints. Any reduction of European aluminium primary production replaced with corresponding higher import will be contrary to EU climate goals. Europe will be responsible for 80% more emissions since the imported metal, based on average world wide energy mix, would have a larger CO_2 footprint than displaced EU production based on the European energy mix. In addition closure of aluminium production will result in job losses and reduced technology development. This is the reason why the industry is urging the European Commission to better assess the real costs and competitive disadvantages to which the industry is confronted and to enact policies dealing with these impacts. In particular, EAA would welcome a "**fitness check**" for the aluminium industry to determine the impact of EU measures on the whole aluminium value-chain in EU.

Besides, EAA had welcomed the European Commission's commitment to proceed to a detailed analysis of the impact on industry's competitiveness of all policy proposals. In the light of the latest developments at European Commission's level, in particular for climate change policies, one could question whether "**Competitiveness proofing**" has really been implemented. In the energy policy, there is an urgent need for realistic assessments of the pass-through of CO_2 emissions allowance costs in electricity prices and of the impact of increased electricity prices on the aluminium industry's competitiveness. Furthermore, the models do not take into account the industry's inability to pass on those extra costs into product prices due to the global price setting mechanism of the London Metal Exchange (LME). The European Commission's assessments so far show only a fraction of the real impact, and therefore have

led to erroneous conclusions that should not have been used as a basis for decision making.

Actions needed/Enabling policy:

*Policy-makers must undertake an **in-depth assessment of existing and future proposals on energy and climate change policies in order to prevent further de-industrialisation of Europe**. The European Union and Member States should work with businesses to assess the cumulative impacts of existing and future proposals on energy and climate change policies on the competitiveness of industry and to develop a better knowledge. EAA considers that the European Commission should proceed to a sound "fitness check" to determine the impact of EU measures on the whole aluminium value-chain in the EU.*

Both the 2020 Energy Strategy and the 2050 Energy Roadmap are based on three key principles: *security of supply*, *decarbonisation* and *competitiveness*. EAA deplores that, in practice, the **competitiveness** aspect has received far too little attention. **There can be no sustainable industrial production without competitive electricity prices**. While the policy documents are worded positively, in this respect, current measures are bound to increase prices for energy consumers. This must be reversed by a true European Industrial Policy.

Indeed, European energy prices have already risen to levels that are unsustainable for energy-intensive industries, due to:

- Indirect costs of emissions trading since 2005 – passed on into electricity prices but not appropriately compensated, despite explicit recognition of the principle in the revised ETS Directive of 2009;
- Increased grid costs to cope with the unstable nature of renewable energy sources – passed on to customers without appropriate exemptions for energy-intensive industry;
- The lack of a true internal electricity market - hampering competitive pricing, especially for long term contracts.

To foster long term investments, the industry needs predictability and affordable power price. Despite being normal practice for energy-intensive industries worldwide, EU competition law signals discourage the conclusion of long term contracts for electricity, thus depriving European industry of an essential tool.

Action needed/Enabling policy:

Long term electricity contracts *are prerequisite for major investments to be undertaken in the EU. Therefore, industrial policy must create the opportunity for suppliers and consumers to develop mutually-profitable contracts.*
The European Commission should therefore clarify its position on the possibility to establish such contracts and proactively support them as part of a competitive energy/industrial policy.

II/ Resource efficiency including recycling: Unlocking the benefits of a permanent material

- Support the industry to help EU –policy makers achieving their goals

Aluminium is essential to a resource efficient society thanks to its inherent properties such as recyclability[3] and other benefits that make aluminium the material of choice for applications in lighter vehicles, energy-efficient buildings, safe and sustainable packaging.

Aluminium is durable. It can be recycled many times with no intrinsic loss of quality. Recycling saves up to 95% of the energy required for primary production; it is one of the most energy saving metals to recycle.

More than half of all the aluminium currently produced in the European Union (EU-27) originates from recycled raw materials and that trend is on the increase. In view of growing end-use demand and a lack of sufficient domestic primary aluminium production in this part of the world, Europe has a huge stake in maximising the collection of all available aluminium and developing the most resource-efficient scrap treatments and melting processes. However, to meet the growing demand for metals and because of the long life-span of aluminium applications (e.g.: aluminium in buildings) increasing recycling alone would not be sufficient to serve EU consumers.

Action needed/Enabling policy:

EU authorities should investigate how to address the large volumes of valuable aluminium scrap exported from Europe today as importers from other regions are "capturing" a key European resource.

[3] Aluminium has impressive End-of-Life recycling rates of over 90% in transport and building applications and more than 55% in packaging, up to over 90% in some countries for beverage cans.

❖ Introducing the right methodologies and indicators

EAA has welcomed the "*Roadmap to a resource efficient Europe*" published by the European Commission in 2011. In particular, the aluminium industry strongly supports the emphasis set on the need for a cross-sectoral **implementation of LCA methodologies** and the adoption of sound indicators.

Valid recyclability-measurements are necessary to be assessed in order to identify potential improvements and set waste and recycling indicators. Currently, the emphasis was for long set on the input side of production and consumption (better use of raw material, higher productivity, etc.), while the output side of the products' life cycle (use-phase, recycling, reuse) remains overlooked, or at least underestimated. European criteria for sustainable buildings should include end-of-life recycling (EoL) in the environmental assessment in order to promote recyclable materials.

e.g.: For instance eco-design requirements should recognize much more end-of-life recycling in order to secure the availability of recycled material for future generations instead of focusing on maximizing the recycled content of goods manufactured today. If the true aim is sustainability, then the properly eco-designed product is the one which, whether itself made of recycled material or not, will also constitute a preserved resource for the future. Taking into account **End-of-Life recycling is therefore essential for EU policies to better reflect the sustainability added-value of materials such as metals**.

Action needed/Enabling policy:

*When defining resource efficiency indicators, it is essential that EU authorities introduce **End-of-Life recycling**, comparing the amount of metals obtained from recycling with the amount of metals available at the end of life of a product. Encompassing metal losses during the collection, scrap preparation and melting, it directly reflects the specific performance of a metallic product independently from market growth or its lifespan. It is therefore important to recognise the specific situation of aluminium and other metals with long lifetimes in the use phases, which delays their availability for recycling. A comprehensive assessment of all indicators and scheme and how they are used is essential.*

While EAA supports the development of sound indicators and data, policy-makers should be prudent in introducing new targets and requirements for the reduction of natural resource use (e.g.: taxation of virgin raw materials) as this could turn to be counterproductive.

❖ <u>An impressive emissions' reduction from road transport remains untapped</u>

While some horizontal and/or cross-sectoral adjustments should be implemented at EU level, the aluminium industry also wishes to highlight a number of existing obstacles or discrepancies in sectoral policies. The transport sector accounting for about one quarter of overall EU emissions of carbon dioxide and about half of it, i.e. 12% of the total, is one particular policy area where the EU has decided to be ambitious but still refuses to benefit from the most effective tools to reach its targets.

The existing European legislation has developed targets and modalities to reach those targets for both cars and light commercial vehicles. Aluminium **transport applications** provide a significant contribution to reducing GHG emissions by substituting heavier materials. Aluminium helps to lower CO_2 emissions, increases performance by reducing weight and saves lives due to aluminium's unique energy absorbing characteristics at impact. In order for EU legislation to be fully effective however, future legislation must safeguard **technology neutrality**. Taxation or CO_2 limitations should not be differentiated based on vehicle mass. Only then the full potential of all different technological means to reduce CO_2 emissions can be fully stimulated. This is unfortunately not the case in Regulation EC 443/2009 and in the Regulation on CO_2 emissions from light commercial vehicles (COD/2009/0173) which is not rewarding efforts towards lightweighting and even discouraging car manufacturers to invest in lightweighting.

Actions needed/Enabling policy:

The EU policy-makers should revise the modalities and utility parameter used in the existing legislation to make it technologically neutral and let the choice to car manufacturers to have their emission target calculated based on footprint (track width x wheelbase).

III/ International market access and global competition

Europe's industry is in fierce competition with every other region of the world. This is particularly the case for globally traded commodities such as aluminium. Therefore the competitiveness of the European aluminium industry can only be measured against the benchmark set by global competitors. Regionally-imposed costs and an uneven global-playing field are leading to a shift of investments in upstream activities towards extra-EU countries.

❖ Address the global dimension and prevent further carbon leakage

The Guidelines on "certain state aid measures in the context of the ETS" recently adopted by the European Commission will fail in their objective to prevent carbon leakage since they will only allow for a partial compensation of the indirect CO_2 costs. Compensation for these costs is vital for the aluminium industry, which cannot pass on its regionally imposed CO_2 costs to customers, as its sales prices are determined on the London Metal Exchange. Since most competing regions of the world are not exposed to such indirect emissions costs, there will be further massive production losses in Europe, with no global environmental gain, as imported aluminum is estimated to have a significantly higher carbon footprint than the average footprint of aluminium produced in Europe. **The European aluminium industry therefore urges the European Commission to encourage Member States to employ additional means to secure the industry's competitiveness and prevent carbon leakage**.

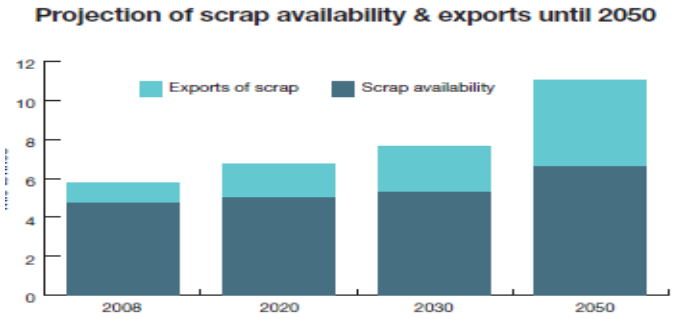
Actions needed/Enabling policy:

*As European installations subject to a global price setting mechanism cannot compete with each other on pricing, the EU must permit Member States to fully compensate them and/or find **alternate mechanisms to address such competitiveness gaps**, until the global competition is subject to similar measures. Such compensation or alternate measures must be realistic to implement and should always aim to preserving our ability to compete internationally.*

In the framework of international and bilateral negotiations, the European Commission should better ensure an even level-playing field for the European aluminium industry to secure its short, medium and long term competitiveness. Due to assumed state interference in some non-EU countries, there is a need for EU authorities to proceed to in-depth investigations to reveal any improper market distortion. With this respect there is also a need for the European Commission to address in a more determined way the transparency of governmental interactions and possible interferences in large industrial countries; the EU and other international partners would then be able to **better clarify to which extent state interference and market distortion have occurred**.

❖ Keeping scrap in Europe

Because of the value of aluminium recycling it is very important to keep scrap and continued growth in recycling to maximise our contribution to climate goals. Despite the market forecast and the increasing consumption, due to the long life-cycles of aluminium products, recycling will not replace the primary production in Europe. Additionally, Europe has become a net exporter of scrap. **Aluminium scrap exports are dramatically increasing, with importers "capturing" from Europe a key resource**, cheap embodied energy and further creating a risk of dependency. All aluminium scrap export should be considered as European electricity export without compensation, as it will cost Europe a lot of energy to produce or import the primary metal required to supply the European demand.



Actions needed/Enabling policy:

In the framework of international and bilateral negotiations, the European Commission should insist on the need to enforce trade-related environmental legislation and secure a ***level-playing-field for secondary material*** *(i.e.: aluminium scrap) with a particular focus on the environmental performance of recycling plants.*