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EU Parliament's Environment Committee threatens the long-term future of Europe's metals industry

<u>Brussels, 7 October</u>: A key part of the EU's climate change policy – the Emission Trading System (ETS) – could destroy the economic viability of Europe's non-ferrous metals industries. The European Parliament's Environment Committee recognized the impact of CO2 costs passed into electricity prices (indirect effects) as one of the criteria for carbon leakage, as it has a large negative effect on the competitiveness of energy intensive industries. Therefore, it is inexplicable that the Committee vetoed provisions for a legal mechanism to address this problem.

"By vetoing solutions to the large electricity price increases caused by the ETS, Europe will export jobs and import energy intensive products with a higher greenhouse gas content. Today's vote opens the door to a significant delocalisation of energy intensive industries, like ours, to regions without restrictions on greenhouse gas emissions", says Guy Thiran, Secretary General of Eurometaux, the trade association for the non-ferrous metals industries in Europe with 450 000 employees.

The ETS has both direct and indirect effects on the energy intensive industries, such as the production of metals like aluminium, zinc, copper or nickel. The direct effects relate to the emissions of greenhouse gases from the production process for making the non-ferrous metals. Eurometaux welcomes the wide support in the European Parliament to give free allocation of emission allowances for direct emissions to trade-exposed, energy intensive industries.

The ETS, however, has, a larger impact, by far, through the indirect effects; the cost of CO2 permits for electrical generation passed onto consumers through increased electricity prices. For the non-ferrous metals industries, particularly aluminium and zinc, the indirect effects are much larger than the direct effects and electricity represents 30 to 40 percent of production costs. As our products are sold into markets with global pricing, our companies are unable to pass through these cost increases into their product prices. This is true whether electricity is purchased from third parties or self-generated. Under the revised ETS, with more ambitious reduction targets after 2013, the price of CO2 allowances will rise substantially from today's level, further increasing electricity prices.

To preserve the competitiveness of the European energy intensive industries and prevent them from moving to other regions of the world, with lesser or no GHG restrictions and fossil-based energy mix, we call on EU decision makers to address the indirect effects. Preferably this would be through free allocation of emission permits for electricity induced costs, including those in self-generation. This was partially recognized by the Industry, Research and Energy Committee of the European Parliament which, in its vote on 11 September, proposed measures to address this challenge.

It is also incomprehensible that metal recycling is proposed for inclusion in the scheme. Metal recycling saves most of the energy and greenhouse gas emissions from primary metal production and is already subject to substantial leakage to other parts of the world.

"***We regret very much that the Environment Committee has failed to adopt solutions to the competitive burden imposed by the indirect effects and to add new burdens on the recycling***

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industry. It endangers the long term future of the non-ferrous metals industry in Europe without any environmental gains and even potentially negative environmental effects", Mr. Thiran says. "***It is, nevertheless, encouraging to see Member States searching for a solution. We hope Europe will decide to maintain a strong industrial base***."

The European non-ferrous metals industry wants the ETS to succeed and will continue to make major efforts further to reduce its emissions. But as long as the ETS is implemented on a regional basis, the emission reduction efforts must not be implemented in a way that closes important European industries. This could weaken the credibility of the emission trading system and the role of similar systems, elsewhere. In this respect, it is worth noting that proposals for an ETS in Australia include provisions to preserve the competitiveness of energy intensive industries.

Metals, through their endless recyclable capacity and applications from sectors like aeronautics, road and rail transport, to buildings, power distribution and renewable energies, contribute greatly to our quality of life. Jeopardizing their production and recycling in Europe will not solve the climate problem. It will only export it to other parts of the world.

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