

## ETS Free Allocation plans need some serious improvements

The Commission is developing allocation rules for ETS allowances under the current set CAP. These free allocation rules should prevent carbon leakage and should consider, among other concerns, the interests of economic activity/employment in remote/disadvantaged EU regions. Free allocation of allowances for direct emissions will be insufficient to prevent carbon leakage if allocation fails to address the following:

- **Huge potential impact on non-ferrous metals:** Current proposals will put an unequal burden on different sectors, particularly, owing to large differences in the spread of their product benchmark curves or standard fuel use. The non-ferrous sector will be much more heavily burdened than other sectors, with a burden considerably in excess of the overall EU reduction target. It would be inequitable and environmentally inefficient to expect small heterogeneous sectors to compensate for much lower reductions in the larger more homogenous sectors. This inequity would be further compounded when the amount of free allocation entitlements exceeds the available cap, requiring application of a correction factor, the larger sectors having absorbed most of the available free allowances.

This will be particularly damaging to a sector, such as ours, which has acted early and successfully, leaving much less room for improvement of its processes. This is particularly critical to the non-ferrous metals sector which is unable to pass on any of the costs, due to the LME global pricing system.

- **Fallback approach, fuel-mix benchmark, exemption justified and needed:** the current draft plans will allocate free allowances based on natural gas, as the fuel mix. They foresee no specific fuel mix benchmark (exemption) where gas grids are not located near to the company or where the industrial process is recognized to function better on another fuel. Consequently, installations that use coal/oil in areas with no gas - or where gas is not the best fuel to use - will have to buy a substantial amount of allowances. Particularly, in remote areas and for complex metals recycling, this will impose unbearable costs, leading to carbon leakage. For example: if applied on the 'Alumina' subsector (6 plants), the current policy would close the plants in Spain and Italy.

Therefore, in these circumstances, allocation must be based on the specific fuel used, until a gas grid is available.

- **Fallback approach, grandfathering: reduction factor is not justified:** the EC plans a reduction ('effort-sharing') factor on grandfathered process emissions. The process emissions in the major product benchmark sectors have no reduction factor (recognized by Ecofys), as such a factor would have no link to how the product benchmarks are set. It would be highly inequitable to impose a reduction factor on the process emissions of heterogeneous small emitting sectors where there is no effort sharing at all. These process emissions (e.g. due to organic or carbon feed, or due to fuel oil or coke used (as reducing agent) to melt and reduce scrap or other recycling materials) are unavoidable. Moreover in the metals industry these process emissions have a recognized low reduction potential; so, any reduction factor would just be an additional tax on the industry, as there is no potential to improve. The EC justifies this plan by the fact that it found a link in one tiny product benchmarked sector (Tiles) between the benchmark and the process emissions. This can not justify the imposition of such a factor on other sectors, such as metals recycling.

- **Fallback approach, grandfathering, should encourage metals recycling, not harm it:** the above measures negatively impact metals recycling and contradict the EU Recycling policy for which specific support for recycling activity should be expected. To encourage metals recycling within the EU, recycling (processing and treatment of scrap or other metal containing materials) must receive full free allocation of allowances, without any reduction factor. Failing this, strategic European scrap and other secondary raw materials will be increasingly lost to non-EU27 countries which are already eagerly purchasing the materials, where often they are treated in a less-environmentally-protective way.

*The non-ferrous metals industry urges these concerns be carefully considered.*