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Eurometaux's position on the amendment to the European Climate Law to set an EU climate target for 2040

While the European non-ferrous metals (NFM) industry is committed to EU's climate objectives, an ambitious 2040 target will require a massive transformation of energy-intensive industries in just 15 years. Achieving an ambitious target will depend on breakthrough technologies, significant investments and a supportive policy framework, including financial support to create viable business cases for each sector, including all industries' installations. For this reason, ***the EU's approach must be pragmatic, flexible, and involve contributions from across the European economy (not just ETS sectors)****. This is essential for creating a viable business case that will secure the necessary investments and protect Europe's global economic competitiveness and strategic autonomy, especially in sectors most at risk of carbon leakage.*

Key points

Enabling conditions for a European business case

- ✓ Retain in the final text the language from Article 1(2) of the EC proposal, identifying the essential elements to be necessarily reflected in the legislative proposals for the post-2030 period:
  - (c) enhanced sufficient compliance flexibility across sectors to achieve targets cost-effectively;
  - (d) Member-States' post-2030 targets should reflect cost-efficiency and solidarity;
  - (i) simplification, technology neutrality, cost-effectiveness, economic efficiency, and economic security;
  - (k) strengthen EU's global competitiveness and industrial sectors most exposed to carbon leakage;
  - (m) **energy affordability**, security of supply, energy efficiency, provided needed infrastructure and the 'energy efficiency first' principle.
- ✓ Additional EU & national funding for CAPEX and long-term OPEX, along with simplified rules;
- ✓ Demand-side measures stimulating demand for decarbonised & low-carbon goods;
- ✓ Stronger policy instruments to ensure fair international competition. CBAM reform must be part of the enabling framework, including export provisions, robust anti-circumvention measures, and closing loopholes to avoid investment leakage.

Advance the integration of international credits

- ✓ Rethink the restrictive 3% cap on international carbon credits and integrate them in the broader post-2030 framework, ensuring needed flexibility to industries for their residual emissions (possible also for non-ETS sectors). Timing should be brought forward to 2031;
- ✓ Given that the Commission has not conducted an impact assessment of the 3%/2036 international credit proposal, the flexibility needs of all sectors should be quantified as soon as possible, under different demand and decarbonisation technology development scenarios.

Strengthen compliance flexibility in the EU ETS

- ✓ Domestic removals and high-integrity international credits should be recognised in the EU ETS;
- ✓ Permanent and REDD+ credits should be included in the framework;
- ✓ Access to these flexible compliance options open to all sectors and categories of emissions;
- ✓ Review mechanism: Include a 5-year review mechanism (first in 2030) to assess whether flexibility mechanisms are sufficient for meeting the 2040 target (based on technology readiness, competitiveness, and global climate ambition), recalibrating these as necessary from the year following the review.

Eurometaux - European Association of Metals
Avenue de Tervueren 168, Box 13 | B-1150 Brussels | Tel: +32 (2) 775 63 11 | www.eurometaux.eu | eurometaux@eurometaux.be | @Eurometaux

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Increase transparency for the 2040 Climate Target

- Detailed, sectoral emission projections that clarify which sources of CO_2 are expected to remain by 2040 are needed. Transparent data on residual emissions should be formally integrated into the legislative process as a prerequisite for evaluating the robustness of the proposal.

The need for enabling conditions for a European business case

- Global competitiveness, energy affordability, security of supply and technology neutrality must be placed at the core of the upcoming post-2030 climate and energy policy framework. In this regard, **the final text should retain the following language from Article 1(2) of the EC proposal**, which identifies the essential elements that must be reflected in the legislative proposals for the post-2030 period:

  (c) enhanced flexibility across sectors, to support the achievement of targets in a cost-effective way;

  (d) Member States' post-2030 targets and efforts should reflect cost-efficiency and solidarity, in light of national circumstances;

  (i) simplification, technology neutrality, cost-effectiveness, economic efficiency, and economic security;

  (k) the need to strengthen the global competitiveness of the Union's economy, in particular SMEs and industrial sectors most exposed to carbon leakage so as to ensure fair competition;

  (m) ***energy affordability****, security of supply, energy efficiency and the 'energy efficiency first' principle.*

- **Additional EU and national funding** for both capital expenditure (CAPEX) and operational expenditure (OPEX), along with simplified rules, is essential to trigger the significant investments needed for the transition and industrial electrification. This funding is necessary for completing interconnections, modernising grids and reducing the cost of matching variable renewable energy supply with less flexible baseload demand. This is also essential to reduce costs and accelerate the deployment of available technologies for industrial decarbonisation (e.g., electric boilers, bio-methane, Mechanical vapour recompression technologies) and low-carbon electricity via Power Purchase Agreements (PPAs).

- **Demand-side measures** actively stimulating and supporting demand for decarbonised and low-carbon goods are urgently and critically needed to complement the existing focus on the supply side.

- The EU should strengthen its policy instruments to ensure **fair international competition** and a real level playing field for EU industries, avoiding carbon and investment leakage. For example, since 2005, the EU has already lost 30% of its primary aluminium production capacity, with more than 50% of the remaining capacity curtailed during the energy crisis. Despite increasing global demand for aluminium, none of the new global aluminium investments since 2005 materialised in Europe; they are instead happening in other regions of the world, with a carbon footprint 3 times higher than the European production they are replacing. Similar trends can be evidenced in other non-ferrous metal sectors. This illustrates how rising unilateral carbon costs without safeguards are already driving deindustrialisation and increasing global emissions. The 2040 target framework must explicitly prevent a repeat of this pattern.

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- **CBAM reform must also be part of this enabling framework**. Without an effective and predictable carbon leakage protection system, including export provisions, robust anti-circumvention measures, and the closing of loopholes such as the possibility to over-report recycled material to avoid CBAM costs, European producers will face an uneven playing field and the risk of large-scale investment carbon leakage.

Advance the integration of high-quality international credits

The recognition that international credits can contribute to the 2040 target is a positive step. However, **the current provision of a 3% cap on international credits starting only from 2036 is both overly restrictive and delayed**.

- The proposed 3% cap is too low to reflect the urgency and scale of the challenge.
- **High-quality international credits under Article 6.4 of the Paris Agreement** – subject to robust environmental safeguards and not limited to credits with the highest generation costs (e.g., DACCS) – **should be integrated into the post-2030 framework from the outset.**
- The start date for their use should be moved forward to 2031 to allow earlier access to cost-effective decarbonisation opportunities.
- This approach would lower costs in EIIs sectors where cutting emissions remains very expensive or technically impossible, strengthen global cooperation and engage other countries in practical decarbonisation pathways. This would also lead to more efficient investment, where companies could channel funds towards lower-cost reductions abroad (which means more emission cuts and more room to invest in Europe's clean transition).
- Given that the Commission has not conducted an impact assessment of the 3%/2036 international credit proposal, the flexibility needs of all sectors should be quantified as soon as possible, under different demand and decarbonisation technology development scenarios, to better inform decisions on the 2040 target.

Strengthen needed compliance flexibility in the EU ETS

- A 90% target implies that European industry would have to be almost entirely decarbonised by 2040. The technical possibility of achieving this depends on the emergence of breakthrough technologies in sectors where we do not yet know how to eliminate the emissions (e.g. primary aluminium production). At this stage, it is not possible to predict when these solutions might be available.
- Therefore, both domestic permanent removals certified under the carbon removals certification framework (Regulation 2024/3012) and **high-integrity international credits under Article 6.4 of the Paris Agreement should be recognised in the EU ETS**, helping manage compliance costs and support market liquidity.
- Permanency in the context of REDD+ should be evaluated given that it is based on national accounting frameworks and benefits local communities.
- In line with the cost-effectiveness principle, domestic ETS flexibility options should not be restricted solely for high-cost solutions. Biochar, for example, should be recognised alongside BECCS and DACCS as a near-

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permanent negative emission option. Ensuring a balanced and cost-effective set of compliance tools is key to achieving industrial decarbonisation while safeguarding competitiveness and Europe's strategic autonomy.

- **Access to these compliance options should remain open to all sectors and categories of emissions under the EU ETS**. Since there is currently no universally agreed-upon definition of 'residual emissions from hard-to-abate sectors', imposing such restrictions risks creating unfair outcomes and regulatory loopholes. Further, to evaluate the needed credits and thereby assess the level of flexibility required, a thorough assessment of an estimation of residual emissions must be carried out for each sector.

Increase transparency for the 2040 Climate Target

The current policy framework lacks clarity regarding the precise distribution of residual emissions across sectors. This obscures the understanding of where further decarbonisation efforts must be concentrated and what policy instruments will be necessary to reach the target.

- To make informed and forward-looking decisions, **detailed, sectoral emission projections that clarify which sources of CO_2 are expected to remain by 2040 are needed**. the assessment must include a projection of when abatement is likely to occur from 2030 onwards. Transparent data on residual emissions should be formally integrated into the legislative process as a prerequisite for evaluating the robustness of the proposal.

A review mechanism

No other countries or regions are mirroring the EU's climate ambitions. As a result, European industry will be required to largely move on its own. Given the geopolitical circumstances and the Commission's 90% proposal, which provides very limited compliance flexibility, it will be very challenging or even unrealistic for European industries to comply. Setting such an ambitious target 15 years ahead significantly increases the operating risks for European industries compared with our international competitors.

- To mitigate these risks, and at the same time fulfil the 2040 target, we propose a **5-year interval review** of the set flexibility level, including levels, timing and conditions. The first review should take place in 2030, with an adjusted flexibility level to be applied from 2031 onwards.

- The review assessment should include an **evaluation of European industries' competitiveness the context of high uneven global climate ambitions, including climate compliance costs**, likely **technological progress,** including implementation and the adequacy of flexibility mechanisms. The review is a necessity to avoid unintended consequences that could further erode domestic production capacity (where costs are what determine Europe's competitiveness on the global market).

- **When triggered, policy adjustments should be made to recalibrate the level of EU ETS** compliance flexibility and ensure that European industries can remain viable and competitive, whilst continuing the transition towards climate neutrality by 2050.

Increased access to carbon leakage protection measures

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Given the essential role of metals and components in delivering the energy transition, the framework should ensure the resilience and security of supply of both to maximise their contribution to the transition.[1] Indeed, **adequate carbon leakage protection measures are needed to support industrial manufacturing** and enable cost-competitive decarbonisation of energy-intensive industries that produce materials and components deemed strategic and listed in Annex I, Section I of Regulation (EU) 2024/1252 and the Annex of Regulation (EU) 2024/1735.

Contact

Adina Georgescu, Energy & Climate Change Director | georgescu@eurometaux.be | +32 465 90 15 14

[1] For instance, aluminium has been recognised as both a critical and strategic raw material under the Critical Raw Materials Act, and the importance of aluminium components for clean technologies is further underlined in the Net Zero Industry Act.