Reconciling Energy, Climate and Competitiveness Goals?
Perspective of a aluminium producer in Europe

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The EU aluminium industry has growing markets but a declining production base

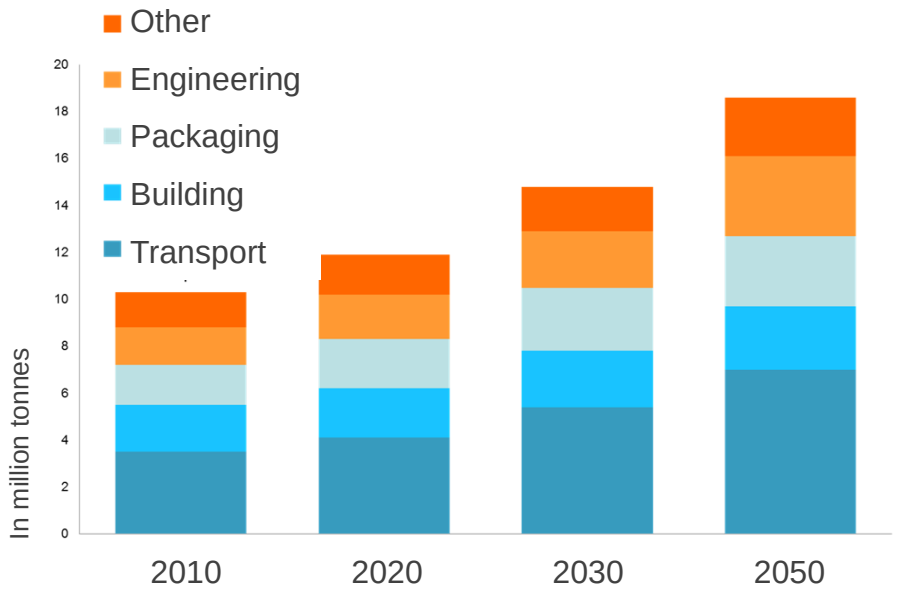
EU Aluminium markets and jobs indicators

€36.8
billion
Annual turnover

255,000
Employed directly by the aluminium industry in Europe

1 million +
Indirect jobs across Europe's value chain

European markets development forecasts



EU primary production
Evolution since 2008

51% Import dependency
+10 points since 2008

Source: EAA 2013

The cumulative cost of EU policies has been assessed by the EC

Procedural steps and methodological aspects of the 2013 EU policies CCA

Background

Follows the October 2012 EC Communication on industry policy recognising strategic importance in the EU of the aluminium industry and need to perform horizontal fitness check of policies on the sector

Assessment commissioned by DG Enterprise to CEPS in February 2012

Study piloted with a multi-DG steering committee . Completed in October 2013; released on November 6, 2013

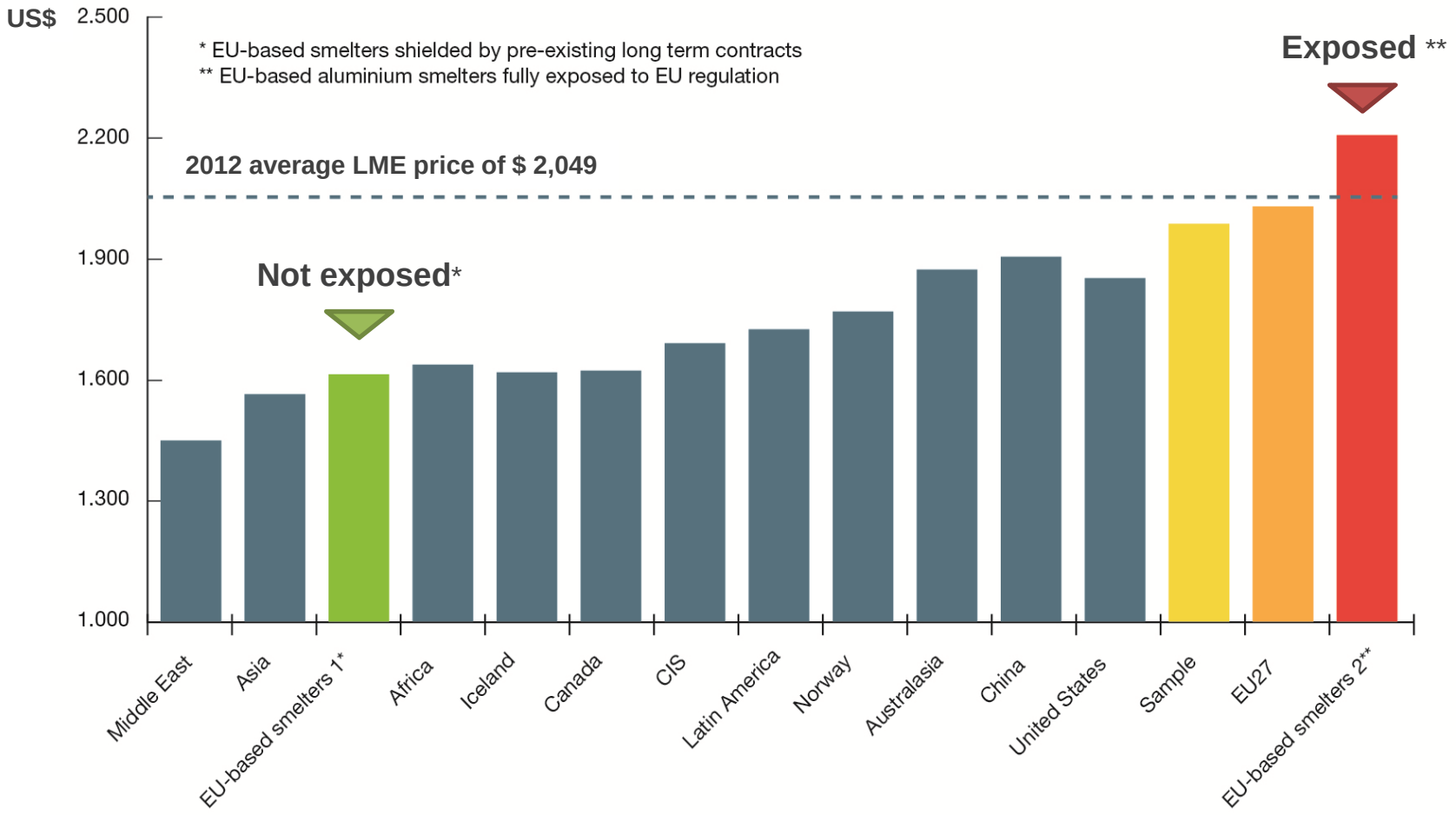
- Assessed add-on costs attributable to EU policies and legislation over period **2002-2012**
- Surveyed **60% of EU primary production base**

Identified two categories of assets

1. **Plants not exposed to EU energy/climate policies** operating under historic contracts
   - ~30% of production base
2. **Plants exposed to EU policies** i.e. procuring power under "EU ruled market conditions"
   - ~70% of production base

Producers exposed to EU polices are the least cost competitive globally

Total production costs of aluminium in different world region



Source: CEPS cumulative costs assessment of EU policies on Aluminum industry - Nov. 2013

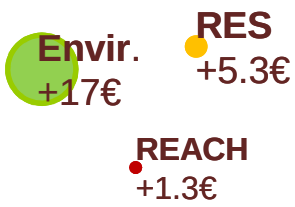
Energy and climate policies have had a major impact on industry cost-competitiveness over the past 10 years

Average costs attributable to EU policies implementation incurred by EU smelters (2002 to 2012)

Assets not exposed to E&C policies

→Power supplies covered by historic contracts without ETS indirect cost pass through, without transmission charge adds-ons, RES charges as per power sources
→No direct ETS costs as smelters not covered by cap and trading until 2013

Costs of policies per tonne produced
+23,5€

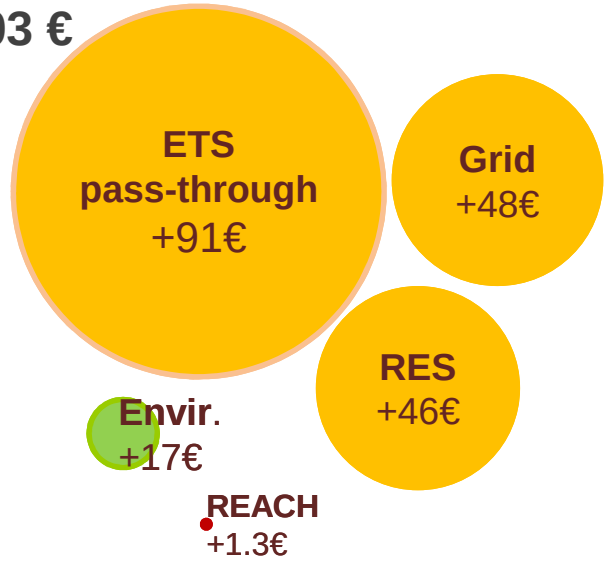


10€ relative scale

Assets exposed to E&C policies

→80% pass-through of ETS into power bills (intermediate scenario)
→National surcharges/levees to fund RES deployment goals and grid (transmission) costs adds-on
→No direct ETS costs as smelters not covered by cap and trading until 2013

Costs of policies per tonne produced
+203 €



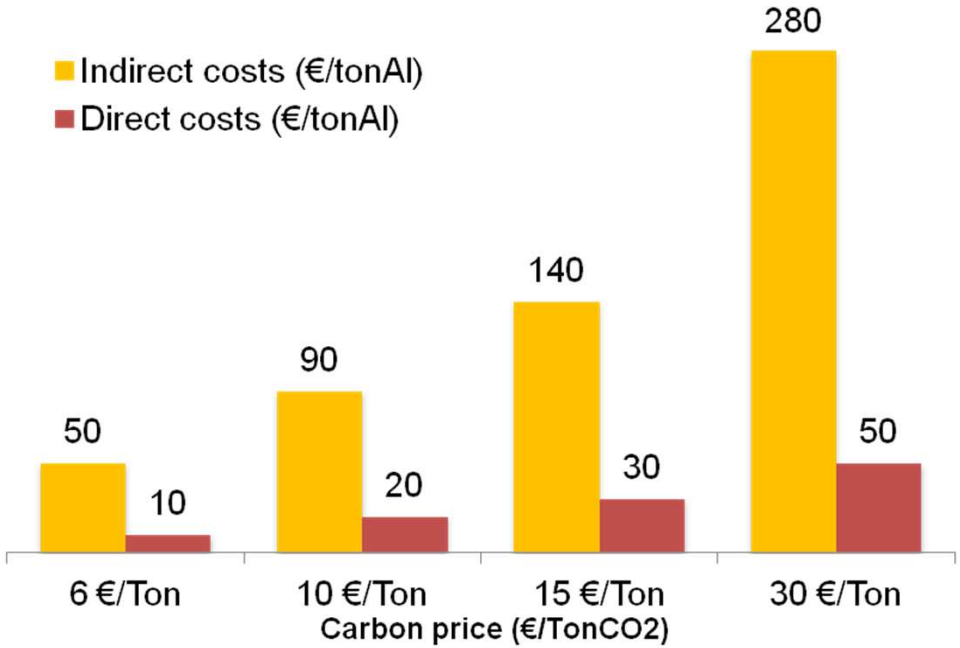
Source: CEPS cumulative costs assessment of EU policies on Aluminum industry - Nov. 2013

ETS prices scenario creates major risks to and beyond 2020

ETS Indirect and direct costs per tonne of Aluminium for exposed smelters under EC price scenarios by 2030

- Under current trading scheme, the evolution of ETS allowances price will considerably increase production costs of smelters exposed to indirect pass-through
- Degressive state aids scheme available in a few Member States compensate “a minima” indirect costs and result in an unstable and an unlevel playing field across the EU

EU ETS costs per tonne Al. produced under different EUA price scenario



Source: Alcoa 2014 - Excl. Iceland: based on actual efficiency, EC Guidelines emission factors and verified 2013 direct emissions

EU policy measures must address industry competitiveness challenges

- The tightening of ETS EUA supply may be needed from a market perspective but it will increase exposure of industries not able to pass through these costs
- Current state aid based compensation regimes give neither stable nor long term perspective to industry
- Key policy step changes are required to maintain an aluminium industry base in the EU
  - Move to an EU-wide, stable and predictable indirect compensation regime
  - Ensure 100% free ETS allocation for benchmark plants direct emissions

Advancing each generation.