

On 16 May, the final text of the **EU’s proposed Carbon Border Adjustment Mechanism**, better known as “the CBAM “ was published in the EU Official Journal (OJ).

As Europeans, we have always supported the objectives of the **CBAM**, but disagreed on the design of the measure. We remain unconvinced about its effectiveness in pushing third countries to adopt comparable carbon taxes as ambitious as the **EU ETS**.

We still consider it will do more harm than good, especially in a situation where half of European primary production capacity is curtailed because of the higher energy prices we pay in Europe. Based on our Independent analysis we expect the CBAM to only increase the costs of production and consumption of aluminium in Europe, with no reduction in global emissions.

But the **CBAM Regulation is now EU law**, and we continue to receive many questions about what the impacts will be for European aluminium consumers and producers, as well as how it relates to other international decarbonisation schemes, for example the EU-US a Global Arrangement on Sustainable Steel and Aluminium, or our trade policies.

The reality is that we are not even halfway through the first half of the game. It is too early still to fully grasp what will be the effects of such unilateral measure proposed by the EU.

This is because:

Most of the design elements are still missing. They will be defined only by the end of 2025, after the initial trial period. During this period, importers will have to submit quarterly reports on the embedded emissions of aluminium products under the CBAM scope. This information will be used for further designing the measure.

We will be able to assess the impacts on trade and competitiveness only by 2028. This is when the CBAM cost element will kick in and importers will have to start purchasing their annual CBAM certificates. This cost will be based on the EU carbon price under the EU ETS.

So will it work?

The answer is: we do not know yet. But if it is a measure that is supposed to level the global playing field in terms of carbon costs and reduce global emissions, we see four main challenges:

First: Indirect carbon costs (not emissions!) - The Regulation foresees that for aluminium the CBAM cost will only be on the declared direct emissions. It should remain that way until we find a way to truly mirror the indirect costs European producers pay in the power price. In Europe, we cannot choose not to pay ETS indirect carbon costs. We just pay, even when consuming decarbonised electricity.

Second: Product scope - There will be an assessment for extending the product scope upstream and downstream. We support the extension of scope to as many products as

possible to avoid importers importing products further processed down the value chain to circumvent the CBAM. However, if we extend the product scope upstream and include alumina, we need first to better understand what the impacts in terms of cost increases are for European alumina producers in the EU and the costs for sourcing it from outside Europe. Aluminium is a strategic metal and alumina – the precursor for primary aluminium production derived from bauxite – is a critical raw material. Do we want to increase our import dependencies by adding more production costs in Europe?

Third: Circumvention via resource shuffling or over-declaring scrap use – The methodology for monitoring, reporting, and verifying embedded emissions in CBAM products imported to Europe will be key. It has to be designed at installation level and be subject to third party verification by independent auditors in third countries. All the detail about this is still missing. To note, the incentive to circumvent the measure will become even bigger if the CBAM will (ever) cover indirect emissions.

Fourth: Exemptions to CBAM – The Regulation is clear in this respect: countries could be fully exempted from the CBAM if they have both a linked to the EU’s ETS and a carbon price effectively paid on the embedded emissions. There are a lot of political discussions about whether the Global Arrangement on Steel and Aluminium could lead to an exemption for countries part of it. The Regulation is clear: there should be exemptions only if there is an equivalent carbon price paid in the country of origin and link with the EU ETS. We support this principle. We remain very sceptical about the US administration introducing a comparable emission trading system to the one we have in Europe any time soon.

Considering all these challenges and unknowns, we expect 3 key short-term impacts on aluminium value chains:

First: Increased data reporting obligations for importers and third country installations producing products to be exported to Europe – Importers will have the obligation to submit quarterly emission reports during the transitional period.

Second: Traceability across the value chain – Third country producers of CBAM products will have to provide information to their customers in [Europe](#) about the emissions of their products at installations level. If a product has gone through separate production steps in different installations across several countries, this can be challenging.

Third: Standardisation – The EU Commission so far is stating that during the initial trial phase, there will be flexibility for reporting embedded emissions in CBAM products to allow importers and third country installations to get used to the system. However, at one point a line will have to be drawn and it will be crucial that there is a common framework for all actors across global supply chains on how to report and comply with the [CBAM](#). A

proliferation of methods is in nobody’s interest. As Europeans, the key principle to follow is that the approach that will be followed is as close as possible to the carbon costs aluminium producing installations pay because subject to the EU Emission trading system (EU ETS).

Source: European Aluminium