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Border Carbon Adjustments (BCAs) and Carbon Pricing

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Border Carbon Adjustments (BCAs) and Carbon Pricing

Welcome Address & Introduction

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Building industries that matter

IETA conference April 14, 2021 on CBAM
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Global renewable energy and aluminium company

Our purpose is to create a more viable society by developing natural resources into products and solutions in innovative and efficient ways.

- 115 years of sustainable industrial development
- Infinitely renewable energy
- Aluminium – metal of the future
- Global reach, local presence
- Responsible and engaged

- 34,000 employees
- 140 locations
- 40 countries
Aluminium should not be included in CBAM pilot phase

Industry depended upon predictable and stable frame-work conditions

• *Existing carbon leakage measures (indirect costs compensation & free allowances) for European aluminium industry are a more optimal approach for many reasons, in particular:*

  • Possible large value chain implications and increased carbon leakage. Aluminium producers, refiners and users in Europe will lose competitiveness.

  • Inability to have a border charge on indirect costs (CO2 costs in power prices) both technically as well as in a WTO compatible manner

  • Likelihood of circumvention and limited/negative impact on reduction of global GHG emissions.

  • Competitive distortions among commodities being covered or not covered
An inadequate carbon leakage protection tool (I)

1) Value Chain challenge – semi- and finished products not covered
   - A CBAM only on upstream primary aluminium would lead to higher costs for EU downstream producers and move production outside Europe:
     • Emission intensive countries export products, not raw-materials
     • Major challenge to capture the CO2 content in products

2) Impossible to calculate EU CO2 costs in power prices (indirects)
   - Power cost are appx 1/3 of operating cost for primary aluminium production
   - Indirect costs are decoupled from indirect physical emissions due to regional power market dynamics and marginal producer setting the power price incl. CO2 costs
   - Indirect costs vary between regions/Member States = not possible to set one EU price
   - Major challenge to design in a WTO compatible manner

3) No reduction in global emissions & possibility to circumvent
   - No global emission effect if CBAM on default value
     • If actual value, there will be resource shuffling:
       • Especially from countries where majority of power plants are based on coal.
An inadequate carbon leakage protection tool (II)

4) Significant reduction of exports
• Production costs will increase and lead to less European exports
  • Export of aluminium products of around 3.4 million tons will be jeopardized

5) Distortion between materials
• Important features like Life Cycle Assessments not taken into account:
  • Key feature of Aluminium: emissions savings during use-phase and infinite recycling without losing quality
  • A one-size fits all design will lead to material competition to the detriment of climate

6) How to measure carbon content & other challenges
• Global standards would not differentiate between producers
• An excise tax will only increase the price. No carbon leakage protection
• How to distinguish primary vs recycling?
An EU-wide CO2 passthrough value would assume full power market interconnections. Far from full power market convergence, analysis shows bottlenecks. The CO2 passthrough values vary widely in Europe.

Averages don’t capture heterogeneity in CO2/energy intensity across producers

An average emissions intensity will result in over/under taxation.

Indirects costs compensation guidelines’ approach* - based on market principles, which reflect the electricity mix in a given region - is accurate

Source: CRU
Indirect emissions vs indirect CO2 emission Costs

There’s a huge difference between actual power GHG footprint vs intensity of the price setting technology in power market (indirect cost)

Nordic electricity market example

The Nordic electricity market, has almost 100% renewable electricity, due to European electricity market dynamics, Nordic metals still face a price effect of CO2 on electricity of 0.67.*

This means that every time the carbon price increases by €1/tCO2, the power price increases by €0.67/MWh, even if we consume carbon-free electricity.
Downstream impacts depend on product-trade matrix

Example of value chain distortions:
If a CBAM covered only primary aluminium, European industry would move production out of Europe to remain competitive and avoid end producers to source finished aluminium from elsewhere.

Therefore, it must cover the entire value chain, upstream and downstream, from the primary product down to the final product containing the commodity.

Otherwise, there are concrete risks of unfairly increasing costs across the entire supply chain and thus eventually undermining rather than protecting our industry’s competitiveness globally.
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