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EURALLUMINA

FEEDBACK on Evaluation of the Council Directive 2003/96/EC of 27 October 2003	DATA 31st March 2020	PAGINA 1 di 4

EU Green Deal – Revision of the Energy Taxation Directive - Feedback

Eurallumina Spa owns an alumina (aluminum oxide) production plant in the municipality of Portoscuso in the Province of Southern Sardinia (Sulcis), Italy that has operated since May 1973. The plant was mothballed in March 2009 due to the economic crisis and high production costs, mainly related to the cost of fuel oil used for the production of steam.

While in operation, the Plant benefited from the "exemption from excise duty on mineral oils used as fuel for alumina production in Sardinia" in accordance to Annex II point 8 for Italy State member of 2003/96/EC Directive and subsequent modifications.

The restart of production activities is scheduled for 2023. As long as the production will be resumed, Eurallumina will automatically become a part of the EU Emissions Trading Scheme (ETS) and it is highly important for the plant that it is not double-taxed within ETD and EU ETS. Both levies should instead be complementary and contribute to achieving EU's climate and energy objectives. Eurallumina will invest about € 247M for restarting the refinery and converting the refinery energy source from fuel oil to natural gas and building a new High Efficiency Combined Heat and Power (CHP) plant to meet the power and heat needs of the refinery. Consequently, a significant reduction of CO2 emission will be achieved.

Eurallumina's activity is included in the Carbon Leakage List as 24.42 NACE code (see final version adopted by UE Decision of 15th February 2019) which consists of the sectors and sub-sectors deemed to be exposed to a risk of carbon leakage and consequently the risk of transferring its production to other countries with lower level of environmental policies. To be noted that, currently, the alumina production capacity in the EU is much less than the amount requested to satisfy the internal aluminium demand and a further delocalization of the alumina production will increase the dependence of this strategic sector on producers from foreign Countries out of ETS or equivalent program.

The evaluation of the Council Directive 2003/96/EC talks about the necessity to revise its scope and structure, also focusing on environmental issues such as the Green Deal Communication aims (GHG reductions by 2030).

Alumina refining is an energy intensive industry with energy making up 20 to 30% of total production costs. Alumina is a commodity, which needs to compete on the global market. Eurallumina is disadvantaged versus non- EU states due to indirect taxes such as the ETS scheme.

For these reasons, Eurallumina highlights the importance of preserving the exemption from excise duty on fuels (mineral oil or natural gas) used for alumina production and avoiding double-taxation in order not to compromise the competitiveness of the sector (which is on the Carbon Leakage List) and, therefore, prevent delocalization of this type of production to countries with less strict environmental regulations.

1. EU Strategic Importance:

There is a shortfall in alumina production capacity in the EU to satisfy the internal demand. Increased taxation is stifling growth and investment in the alumina sector, increasing the dependence of this strategic sector on producers from non-EU countries.

2. Global commodity:

Alumina is a globally traded commodity, and as such, it is paramount that the production of it remains competitive in a global setting. Increased taxes drive up the cost of production, which cannot be passed onto the end customer. The ETD needs to be mindful of this with its application, and ensure producers of alumina are not unfairly taxed.

3. EU wide - ETS Scheme:

Indirect costs faced by our sector have rapidly increased due to soaring European Union Allowances (EUA) prices from a 2015 average of €8/tCO2 to a 2019 average of €25/tCO2. Therefore, the new guidelines will be key for preserving the competitiveness of our industry in Europe while providing the right incentives to decarbonise, in line with the European Green Deal and climate agenda. Eurallumina are one of only two EU alumina refineries that do not receive 100% Free Allocation from the ETS scheme. The ETD should fix these imbalances in the EU ETS.

It is also vital that the ETD and EU ETS do not 'double tax', but are instead complementary with the ultimate aim of satisfying the EU's climate and energy objectives.

4. Cogeneration (CHP):

The Energy Efficiency Directive requires all EU countries to use energy more efficiently at all stages of the energy chain. Cogeneration fulfils this for the energy generation, transmission, end-use consumption and is recognised as providing energy savings, as well as emission reductions. Energy efficiency is recognised as the first fuel and key to reaching decarbonisation objectives at the lowest cost. The European Commission (EC) has warned that energy efficiency efforts must be intensified to achieve the European Union 2030 targets and put us on a pathway to carbon neutrality by 2050. The EC's guidance[1] on the Energy Savings Obligation in the EED confirms that on-site cogeneration is one of the key solutions that can contribute towards

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013DC0762&from=EN

achieving EED objectives, delivering energy savings to end-users on top of contributing to system-wide savings. The ETD needs to promote greenhouse gas emission reductions, energy efficiency, and thus, cogeneration.

Keep flexibility within the ETD to allow member states the ability to offer optional exemptions and differentiation in national tax rates under specific circumstances or conditions. It is important for energy products and electricity used for combined heat and power generation to retain their optional exemption, and would also suggest that high efficiency combined heat and power gain mandatory exemption from the ETD.

5. **Carbon Leakage:**

Eurallumina is under significant threat of Carbon leakage, where alumina production by high efficient, gas powered cogeneration would relocate to other countries with lower level environmental policies.

While the alumina industry is acknowledged under the ETS scheme, additional tax burdens are placed on large, energy intensive industry. The ETD needs to be formulated so that the EU alumina industry is competitive with producers outside Europe.

6. **Overall objective of Energy Taxation Directive ETD**

One of the main objectives of the ETD is to align taxation of energy products and electricity with EU energy and climate policies. This key objective must be mindful of possible unintended consequences of disjointed policy. It is vital that the ETD set mandatory exemptions to member states to support international competitiveness of EU businesses, prevent carbon leakage, and keep the internal market balanced.

Conclusion

Eurallumina is grateful for the opportunity to respond to a consultation on the European Tax Directive. The following represent our key considerations:

1. **Strategic Importance:** Alumina is a resource of strategic importance to the EU, and the shortfall of EU alumina production to meet its needs should be addressed in the ETD.

2. **Global Commodity:** Alumina is a globally traded commodity, and as such, it is paramount that the production of it remains competitive in a global setting.

3. **EU wide - ETS Scheme:** Eurallumina is disadvantaged in that we receive less ETS credits than our EU competitors. The ETD should level this playing field.
4. **Cogeneration (CHP):** The Energy Efficiency Directive highlights the importance of cogeneration in the EU reaching its ambitious 2030 targets. The ETD should include mandatory exemptions for high efficiency cogeneration.

5. **Carbon leakage:** Carbon leakage within the alumina industry is a very real risk to the EU, especially with tax burdens providing additional pressure. The ETD needs to be formulated so that the EU alumina industry is competitive with producers outside Europe.
6. **Overall objective of ETD:** The ETD needs to ensure the internal market remains balanced, while supporting international competitiveness, and preventing carbon leakage.