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13/10/2020

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

Aughinish Alumina Limited (Aughinish) since 1983 has operated a large alumina refinery based in West Limerick. The alumina plant is one of the most energy efficient in the world and produces 30% of EU alumina requirements. In 2003, Aughinish invested over US \$130M in a 160MW High Efficiency Combined Heat and Power (HE CHP) plant to meet the power and heat needs of the refinery, thus becoming an exporter of power and no longer only a consumer. Since commercial operation in 2006, the HE CHP plant has played a major role in Ireland reaching its energy efficiency targets and reducing emissions, accounting for an average saving of approximately 330,000 tonnes of CO2 per annum. 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. Aughinish is disadvantaged versus non- EU states due to indirect taxes such as the ETS scheme and versus other Member states due to differential treatment on ETS and National tax schemes.

We recognise the European Green deal objective to transform the EU into a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050. This must be achieved while maintaining global competitiveness and inter member state competitiveness.

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. The revised ETD directive should preserve country-specific exclusions granted under the Directive 2003/96. This revision should continue to specifically mention the production of alumina in the Shannon region.

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.

Aughinish Alumina is disadvantaged within the EU aluminium industry. Uniquely in Europe, the Irish state does not compensate for Indirect Emissions from electricity consumption in alumina refining.

Furthermore, Aughinish 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. National Irish specific taxes - PSO Levy:

The Public Service Obligation Levy (PSO) was introduced in 2001 by the Irish Government, and is charged to all electricity consumers in Ireland. The money collected from the PSO levy is mainly used to subsidise and support renewable energy generation. The intention was to tax consumers of electricity. Since 2006, Aughinish has been a net exporter of power, supplying 4% of Ireland's power annually with its high efficient CHP. Despite supplying the grid with the lowest carbon intensive thermal power possible in Ireland, Aughinish must pay the PSO levy, as it is charged on capacity, not consumption. Aughinish request consistent tax treatment among EU alumina producers.

5. 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 guidance¹ on the Energy Savings Obligation in the EED confirms that on-site cogeneration is one of the key solutions that can contribute towards 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.

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

6. Carbon Leakage:

Aughinish 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.

7. Electrification of Energy Intensive Industry:

Electrification is a key route to decarbonisation. Additional levies should not be applied to electrification of energy intensive industry that are attempting to decarbonise.

Energy taxation should incentivise switching to decarbonised fuels such as electrification. By offering preferential tax treatment for switching to decarbonised fuels, energy intensive industry would be incentivised to decarbonise, and stay competitive within the global marketplace.

8. 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

Aughinish Alumina 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:** Aughinish is disadvantaged in that we receive less ETS credits than our EU competitors, and are not compensated for our indirect emissions from electricity consumption. The ETD should level this playing field.
4. **National Specific Taxes:** Aughinish is unfairly taxed by the Irish PSO levy. Aughinish request consistent tax treatment among EU alumina producers.
5. **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.

6. **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.
7. **Electrification of Energy Intensive Industry:** Electrification is a key route to decarbonisation. Additional levies should not be applied to electrification of energy intensive industry who are attempting to decarbonise.
8. **Overall objective of ETD:** The ETD needs to ensure the internal market remains balanced, while supporting international competitiveness, and preventing carbon leakage.