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Eurometaux's position on the call for evidence on the CBAM methodology

This paper provides Eurometaux's position on the call for evidence on the rules on the methodology for calculating emissions embedded in CBAM goods. Eurometaux represents European producers of Non-Ferrous Metals like Aluminium, Copper, Lithium, Nickel, Zinc, Silicon, but also ferro-alloys, among other energy transition metals.

Key points

The call for evidence on the rules on the methodology for calculating emissions embedded in CBAM goods is split into three dedicated sections, **to which we provide dedicated feedback in the following pages**. **Our main messages:**

1. **Calculating direct embedded emissions & setting default values**

For aluminium:

- ✓ Apply a single national default value to all aluminium goods in CBAM scope, with no distinction between the primary or secondary production route when used as a precursor (unwrought aluminium), and no distinction between different kinds of scrap. This default value should be based on the carbon footprint of primary aluminium. This is the only way to avoid systematic circumvention of the CBAM by over-declaring the recycled content in aluminium products.

For ferro-alloys:

- ✓ Apply a single national default value equal to the most CO2-intensive installation in the respective country.

2. **Determining embedded indirect emissions**

- ✓ Use the emission factor of the country-of-origin electricity grid (based on IEA data) as the sole method for determining default values for embedded indirect emissions.
- ✓ Default values should be the only option for reporting embedded indirect emissions in imported goods, with no exemptions or options to report lower values (i.e. no use of actual values).

3. **Determining embedded emissions for electricity as a good**

- ✓ Maintain the same approach currently used during the transitional period for electricity as a good: continue using the CO2 emission factor of the country-of-origin where electricity was produced to determine default values, with a limited and cautious use of actual values to prevent circumvention.

1. Calculating direct embedded emissions & setting default values

The **current rules governing the calculation of direct embedded emissions** in the CBAM Regulation have **various flaws which will facilitate its circumvention**. From its **treatment of aluminium scrap** and the related incentive for 3rd country producers to over-report the aluminium scrap content, to the **creation of separate low-carbon production units solely for exports**, the numerous loopholes in the CBAM design make it an inappropriate carbon leakage instrument[1].

[1] See more in Eurometaux. 2025. Eurometaux's position on CBAM public consultation targeting downstream extension, anti-circumvention and rules on electricity (**here**).

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With this in mind, **we propose two simple solutions** – one for aluminium and another for ferro-alloys –, **in line with the Commission's intention in this call for evidence, i.e. to simplify the CBAM Regulation**[2]:

Solution for aluminium:

Apply a **single national default CBAM value for direct emissions for unwrought aluminium to all aluminium goods in the CBAM scope** (CN codes 7601, 7603–7616) **when used as precursor, regardless of production route or scrap content and with no distinction between different kinds of scrap**[1].

This default value should be **based on the average CO2 emission intensity of primary aluminium production in the country of origin** (i.e. country of smelting) and applied to the volume of aluminium in the imported product. **It should be periodically revised to reflect primary aluminium decarbonisation developments in the respective country**[1]**.** If the country of origin does not have primary production or if the country of smelt is not known, it should be based on the world average for primary.

Implementing this approach has **several advantages**:

- **i)** Makes the requirement to report scrap content unnecessary, which should therefore be eliminated,
- **ii)** Avoids resource shuffling and misclassification by ensuring that imports cannot selectively attribute "low-carbon" inputs while European installations continue to pay for all their emissions under the EU ETS, and
- **iii)** Reflects the ETS principle of full installation reporting; the division into sub-installations based on different production routes and disaggregation into sub-products should not be permitted for aluminium under CBAM.

Solution for ferro-alloys:

For ferro-manganese (FeMn), ferro-chromium (FeCr) and ferro-nickel (FeNi) (CN codes 72021, 72024 & 72026), **apply a single national default value equal to the most CO2-intensive installation in the respective country** (for direct emissions) **and based on the most recent information**. Moreover, the installation should be identified as the most CO2-intensive regardless of whether it exports to Europe or not, considering the fluidity of trade flows and import/export patterns, and to prevent further avenues for circumvention.

This is crucial because **if the default value is set any lower than this, it would facilitate circumvention and free riding by the dirtiest installations**, who would be able to export their products to Europe at a discount (based on the lower default value).

To prevent circumvention from the splitting of manufacturing sites:

Emissions from input materials should be **attributed to the entire manufacturing site**, rather than allowing the selective attribution of low-carbon inputs for products intended for Europe. This ensures a comprehensive accounting of emissions without the potential for manipulation.

[2] See Section "Political context" in the Call for Evidence document, stating that "*The current initiative is in line with the Commission's efforts to simplify the CBAM Regulation and make it more cost-efficient.*" (**here**).

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2. Determining embedded indirect emissions

The upcoming draft implementing act on the CBAM methodology will also **i)** set out the details of the calculation of the emission factors for the definitive regime, **ii)** the evidence that must be provided to claim actual emissions and **iii)** the conditions for using alternative default values.

i) Emission factors for the definitive regime for embedded indirect emissions

Currently, the CBAM Regulation predicts three possible approaches to determine default values for embedded indirect emissions: using **a)** the emission factor of the country-of-origin electricity grid, **b)** an EU-average grid emission factor, or **c)** the emission factor of the price-setting electricity sources in the country-of-origin.

From these three possibilities, only a) the emission factor of the country-of-origin electricity grid using IEA data can more accurately reflect 3rd country's electricity emissions. This approach would theoretically incentivise grid decarbonisation in 3rd countries (although governments are unlikely to invest trillions just to lower CBAM charges on exports to the EU) and reduce the risk of resource shuffling and circumvention, considering that IEA calculations are internationally accepted. However, even this preferred approach **has important limitations**. On the one hand, it does **not** reflect the indirect carbon **costs** EU electricity consumers actually face. Indeed, marginal price-setting plants set those costs which tend to be higher than the average grid carbon intensity, meaning default average factors still understate the indirect carbon price exposure of European industry[3]. On the other hand, it can benefit dirty installations, e.g. those directly linked to coal plants where indirect emissions would be significantly higher than the country average.

The two other approaches proposed by the CBAM Regulation for default values are unfit for purpose:

- **b) Using the average of the emission factor of EU electricity grid does not reflect the actual emissions of the electricity used** to manufacture the imported CBAM goods and would benefit third country producers with less decarbonised electricity grids;
- **c) Using the CO2 emission factor of price-setting sources in the country-of-origin incorrectly assumes third countries have a comparable electricity market organisation as in the EU** or equivalent indirect carbon costs generated from carbon pricing of power plant emissions, paired with a marginal price-setting system for setting the electricity price. In reality, the vast majority of other countries do not have electricity markets that

[3] JRC estimates that renewables will account for 67% of EU electricity production by 2030, but that the number of hours where fossil fuels will set the price will remain at 2022 levels – see Gasparella, A. et. al. 2023. The Merit Order and Price-Setting Dynamics in European Electricity Markets (**here**).
The Draghi Report also clearly highlights this element in the analysis of the Energy Sector: *"Marginal gas and coal power prices impact electricity prices: "The EU has a relative high share of natural gas in its power mix and a diminishing share of coal. This provides the required flexibility and firm power, with disparities across Member States. In 2023, the EU produced 2710 TWh of electricity. Almost 45% of this came from renewable sources. Fossil fuels made up 32.5% and nuclear electricity over 20% of total production. Gas was the main fossil fuel used to generate electricity (14.7%), followed by coal (12.7%). Market mechanisms in the EU are based on marginal spot pricing. In the EU's well-functioning, interconnected Single Market, natural gas drives the price during a much larger share of hours in proportion to the share it provides of the power mix. Natural gas was the price-setter 63% of the time in 2022, despite being only 20% share in the electricity mix. Since the second half of 2021, a stronger correlation has been observed between gas and electricity prices. Two correlating effects have resulted in higher prices induced first by gas power plant efficiency (less efficient plants setting the most expensive price) and second by gas regularly being the marginal power plant in electricity price-setting.* ***High gas prices therefore mean high electricity prices at least until the mid-2030s, when fossil fuel generators will be increasingly displaced in the power mix.*** *While gas only directly impacts a limited part of the economy (gas-intensive industries represent around 4% of the EU's total GDP04), its role in electricity generation means that price increases in natural gas can impact the whole economy.",* see Draghi, M. 2024. The future of European competitiveness – In-depth analysis and recommendations, p. 105 (**here**).
This means that the architecture of the internal electricity market largely 'ensures' a misalignment between indirect emissions and indirect costs, at least until the power grid decarbonizes to an extent that fossil fuel generation will have a negligible impact on the marginal price setting, which is expected to materialize after 'mid-2030'.

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function in this way, and none of them have indirect carbon costs that affect electricity prices like they do in the EU.

Our position:

The rule for determining default values for embedded indirect emissions should be to use **the emission factor of the country-of-origin electricity grid using IEA data.**

ii) Evidence to be provided to claim actual emissions for embedded indirect emissions

Even if there is proof that a 3rd country producer is using decarbonised electricity to manufacture and import CBAM goods, the issue of indirect costs in Europe remains and creates an uneven playing field for electricity-intensive industries (like non-ferrous metals producers). Under such a system, third country producers would be able to avoid the CBAM charge by proving that electricity they are sourcing is decarbonised. Meanwhile, **European producers cannot avoid ETS costs even when they are consuming decarbonised electricity, as these costs are reflected in the electricity price set by the marginal plant**. Even **signing a renewable power purchase agreement (RES PPA) does not remove these costs**, since RES producers have no economic incentive to sell their electricity at a price lower than the one they could otherwise receive on the market. PPAs help hedge price volatility and secure access to renewables, but they cannot shield consumers from the ETS cost embedded in wholesale prices.

Allowing the use of actual values for embedded indirect emissions would also massively increase the risk of circumvention. Given the challenges of validating and verifying claims from 3rd country producers (including PPAs, RECs or GOs) and the considerable risk of wrongful reporting, **there should be no option to report a value lower than the default**. Market-based instruments in their present form do not reflect the electricity actually consumed nor meaningfully mitigate emissions outside Europe, and they risk creating circumvention (e.g. resource shuffling low-carbon aluminium from places with abundant hydro while EU producers still face indirect ETS costs).

Our position:

Accordingly, **default values should be the only option for reporting embedded indirect emissions in imported goods, with no exemptions or options to report lower values.**

3. Determining embedded emissions for electricity as a good

From the available options, the current default values based on the CO2 emission factor for electricity as a good are adequate to achieve the CBAM objectives of preventing carbon leakage and incentivising decarbonisation of non-EU production.

Indeed, default values should be the standard methodology, as it gives the best (although imperfect) picture of the emission intensity of the power flowing in the interconnectors. The use of actual values should be limited and used with caution to prevent circumvention.

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Our position:

Maintain the same approach for electricity as a good and **continue using the CO2 emission factor of the country-of-origin where the electricity was produced to determine default values**, with limited and cautious options for the use of actual values to prevent circumvention.

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