

# CBAM Analysis on Primary Aluminium Producers

**CBAM compliance requirements  
would have limited impact on  
domestic primary aluminium entities**

**MARCH 2024**





**Click to see full report**

*To bring in a level playing field and avoid carbon leakage through imports, the EU, the second largest aluminium-consuming block globally, signed the Carbon Border Adjustment Mechanism (CBAM) in May 2023. This tax will initially apply to imports from six sectors (including aluminium).*

*While India had exported around 0.7 mmt (24% of total exports) of primary aluminium to EU in FY2023, unlike steel, the CBAM is not expected to materially impact the export competitiveness of the domestic primary aluminium players.*



- Carbon Border Adjustment Mechanism (CBAM) ruling on European Union (EU) export will have limited impact on the domestic primary aluminium producers as the present notification covers the financial impact w.e.f. January 1, 2026, on direct process related emission, while excluding the indirect emission that generates ~80% of the total emissions in the primary aluminium production process.



- The domestic primary aluminium producers have an average direct emission intensity of ~2.3 MT CO<sub>2</sub>/MT aluminium, which is in line with the global average but ~30% higher than the benchmark EU-ETS\* free allocations. Despite that, CBAM compliance cost is likely to remain at \$50-140/MT (based on current carbon price) between CY2026 to CY2034, which would be only ~2-6% of the aluminium prices.



- In case the indirect emission is also included in future, then the impact would be severe at \$600-700/MT (based on current carbon price), constituting ~27-30% of the aluminium prices. However, inclusion of indirect emission is unlikely in CBAM until the electricity grid in EU is entirely decarbonised.



- In the CBAM's 'Transitional Phase' during October 1, 2023–December 31, 2025, the focus will be on the reporting of carbon, but without any financial adjustment for EU importers. From January 1, 2026, the EU importers will have to buy CBAM certificates, corresponding to the embedded emissions above the EU-ETS benchmark. The price of these certificates will be linked to the weekly average carbon prices at the EU-ETS. Also, after the transition period, the free allocations available to EU-based primary aluminium producers will phase out parallelly with the phasing-in of CBAM over CY2026-CY2034.



- In the last few months, the carbon prices in EU has declined owing to weak industry demand amid macroeconomic uncertainties. However, given these net zero commitments by European countries, carbon prices in the EU-ETS are expected to increase in the medium term.

# What's Inside?

## 1 Biting the Bullet – Arresting Carbon Leakage



## 2 The Ascent of Carbon Prices



## 3 Aluminium Trade Flows to Europe



## 4 Measuring up on Carbon Footprint



## 5 Counting the Cost



## 6 The Green Mile





ICRA

# Analytical Contact Details

Name	Designation	Email	Contact Number
Jayanta Roy	Senior Vice-President	<a href="mailto:jayanta@icraindia.com">jayanta@icraindia.com</a>	033 – 7150 1120
Priyesh Ruparelia	Vice-President	<a href="mailto:priyesh.ruparelia@icraindia.com">priyesh.ruparelia@icraindia.com</a>	022 – 6169 3328
Sumit Jhunjhunwala	Assistant Vice-President	<a href="mailto:Sumit.jhunjhunwala@icraindia.com">Sumit.jhunjhunwala@icraindia.com</a>	033 – 7150 1111
Maitri Vira	Senior Analyst	<a href="mailto:Maitri.vira@icraindia.com">Maitri.vira@icraindia.com</a>	033 – 7150 1100





ICRA

## Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	<a href="mailto:shivakumar@icraindia.com">shivakumar@icraindia.com</a>	022-61693304
Neha Agarwal	Head – Research Sales	<a href="mailto:neha.agarwal@icraindia.com">neha.agarwal@icraindia.com</a>	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	<a href="mailto:rohitg@icraindia.com">rohitg@icraindia.com</a>	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	<a href="mailto:vivek.bhalla@icraindia.com">vivek.bhalla@icraindia.com</a>	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	<a href="mailto:vipin.saboo@icraindia.com">vipin.saboo@icraindia.com</a>	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	<a href="mailto:shivam.bhatia@icraindia.com">shivam.bhatia@icraindia.com</a>	0124-4545803
Naznin Prodhani	Head – Media & Communications	<a href="mailto:communications@icraindia.com">communications@icraindia.com</a>	0124-4545860







***© Copyright, 2024 ICRA Limited. All Rights Reserved.***

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



ICRA

**Thank You!**