

**CBAM Analysis on Primary Aluminium Producers** 

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

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## **Highlights**





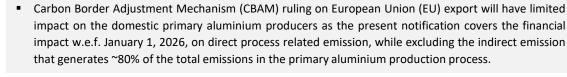
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To bring in a level playing field and avoid carbon leakage through imports, the EU, the second largest aluminiumconsuming block globally, signed the Carbon Border Adjustment Mechanism (CBAM) in May 2023. This tax will initially apply to imports from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









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?

















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