**ALUMINIUM FEDERATION**

**HOUSE OF LORDS LUNCH**

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# THE COST OF CARBON

**BY JOHN CLARKSON, ENVIRONMENTAL DIRECTOR, ALCAN ALUMINIUM UK LIMITED**

Baroness Gardner, My Lords and Ladies, Members of the House of Commons, colleagues. Thank you very much indeed for giving me the opportunity to speak to you today about what is without question the greatest regulatory threat to our industry here in the UK.

Carbon trading, in the form of the EU Emissions Trading Scheme is an issue of very great significance to all energy intensive industries across Europe and so we also welcome here today representatives of the trade associations serving a wide cross-section of industries with whom we share a common cause. A coalition in the national interest one might say.

Five and a half years into Emissions Trading and the primary aluminium sector remains broadly supportive of the concept of trading as a means of delivering carbon reductions, however we do so from outside the scheme looking in.

Since 2005, the UK aluminium sector's only exposure to EU Emissions Trading has been from the participation in the scheme of Lynemouth Power Station in the North East of England. That coal-fired power station, the most efficient of its kind in the UK, generates electricity for direct use in the manufacturing process at the adjacent Lynemouth smelter.

However, from January 2013 Europe's entire aluminium industry will enter the third phase of EU Emissions Trading and that places a regulatory pressure on our sector which is not matched in other regions of the world.

Because aluminium is traded as a commodity, with its price set by the London Metal Exchange, it is impossible for our industry to pass through any regionally-imposed costs as our customers would simply turn to suppliers in other regions of the world who are not subject to the incremental cost. This would inevitably result in the closure of European smelters and significant carbon leakage from the EU.

All of that said, we do regard Emissions Trading to have been a relative success so far, due in large part to the recognition of the early action taken by industry to reduce carbon emissions.

For example, in the period leading up to the introduction of Emissions Trading and under the original terms of climate change agreements negotiated under the previous government - UK industry cut carbon emissions by 13.5 million tonnes, almost three times the national target. Two million tonnes of that reduction were contributed by the aluminium industry.

Our UK smelters reduced greenhouse gas emissions by 21% against a national Kyoto target of 12.5% and that was achieved while we increased primary aluminium production by around 10%.

Climate Change Agreements left industry facing targets for emissions reductions that were ambitious but achievable and sustainable.

So what's the problem?

Well, we live in a period of great uncertainty. Climate Change Agreements have worked – they have delivered significant environmental improvement while paying recognition to international competitiveness and allowing for growth.

But the rules of the game are changing. First, in the 2009 pre-Budget Report, the then Chancellor announced measures that would increase the cost of the Climate Change Levy on our UK sector by at least £5 million a year. That might not sound like a huge increase, but it would be sufficient to drive some of our colleagues in the downstream sector out of business.

More recently, officials from the Department of Energy and Climate Change, with whom we had been negotiating revised climate change targets for the period up to 2015, proposed a further 20% target reduction on our sector. Unlike previous targets, this was set without consultation and without any consideration of what is scientifically possible or economically sustainable.

For example, in recent years Rio Tinto Alcan has invested more than £40 million on energy efficiency improvements and research undertaken by The Carbon Trust has not yet identified any further significant improvement opportunities beyond that which we have already undertaken and submitted to the government.

This entirely unjustifiable target places yet more of our UK sector at risk.

Furthermore from 2013 all of our emissions will be included in the EU Emissions Trading Scheme. As a 'sector at risk of carbon leakage' the aluminium sector will receive allocation for direct emissions from its processes to a benchmark based on the best 10% performing plants and it is envisaged some form of compensation will be granted for indirect emissions associated with electrical energy production and consumption again to an industry benchmark.

The associated annual cost to Lynemouth for compliance with phase III of carbon Emissions Trading is estimated at between £50 and £100 million if adequate compensation cannot be secured.

Taken in isolation, either the risk from Emissions Trading or the new Climate Change Agreement target would be sufficient to pose a significant threat to our international competitiveness. Their cumulative effect however would be catastrophic for our business and for the entire UK aluminium sector.

Rio Tinto Alcan continues to support the development of global negotiated country agreements, under the United Nations Framework Convention on Climate Change, as the most cost-effective and efficient means of controlling carbon emissions on an international scale. Until such time as developed countries have taken on equivalent burdens and developing countries have made commitments to significant reductions in carbon intensity, under transparent and internationally recognised rules of measurement, verification and reporting, EU energy intensive industries will require continued access to the free allocation for direct emissions and compensation for indirect emissions provided by the revised ETS Directive.

We see no evidence that the Copenhagen Accord will deliver those equivalent actions and so urge Member States to hold the EU institutions to their prior commitments, in this respect, until those conditions are met.

Aluminium is produced in every industrialised continent around the world and therefore unless the same rules were applicable to every producer there would still be a risk of carbon leakage.

The EU Emissions Trading Scheme and specifically the Phase 3 Directive, are of great significance to our UK operations and I am therefore very grateful for the opportunity to share my thoughts on these matters with you.

With all of its recycling capability and sustainable applications, aluminium is not part of the problem with climate change but part of the solution to it. I sincerely hope that in the years to come, our industry will continue to have the opportunity to prove it.

Thank you once again Baroness Gardner for your most gracious hospitality and thank you all for your attendance and interest today. I hope you enjoy what remains of the afternoon.