ETS Phase 4 : Ensuring a dynamic allocation system

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Free allocation adjustments due to production changes is about:

Historical Activity Level (HAL) +/- Dynamic Allocation

= Free Allocation.

At any time, important to:

1. Honor All Production Growth at Benchmark Levels
2. Avoid Unneeded Overallocation

Commission Proposal for Historical Activity Level in P4

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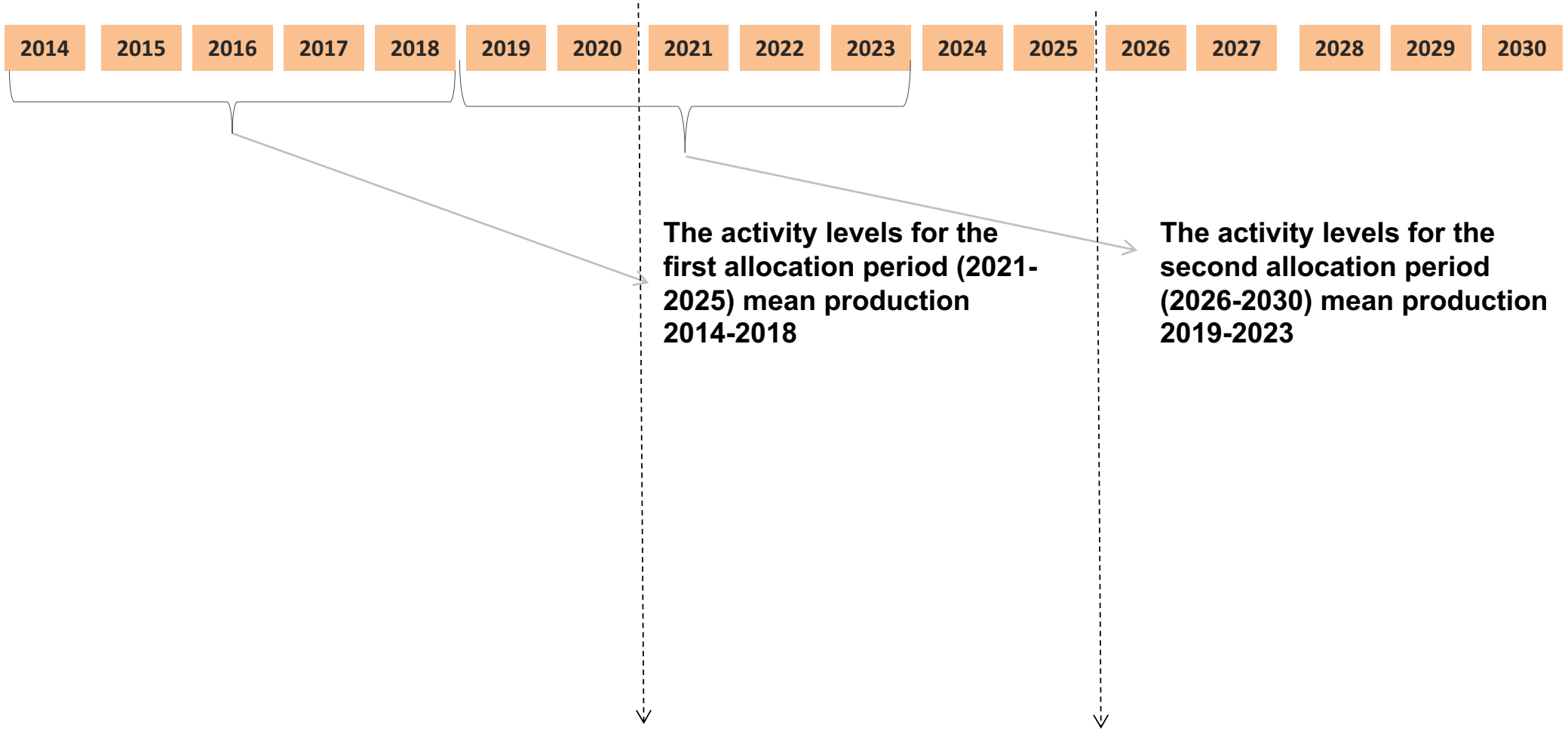
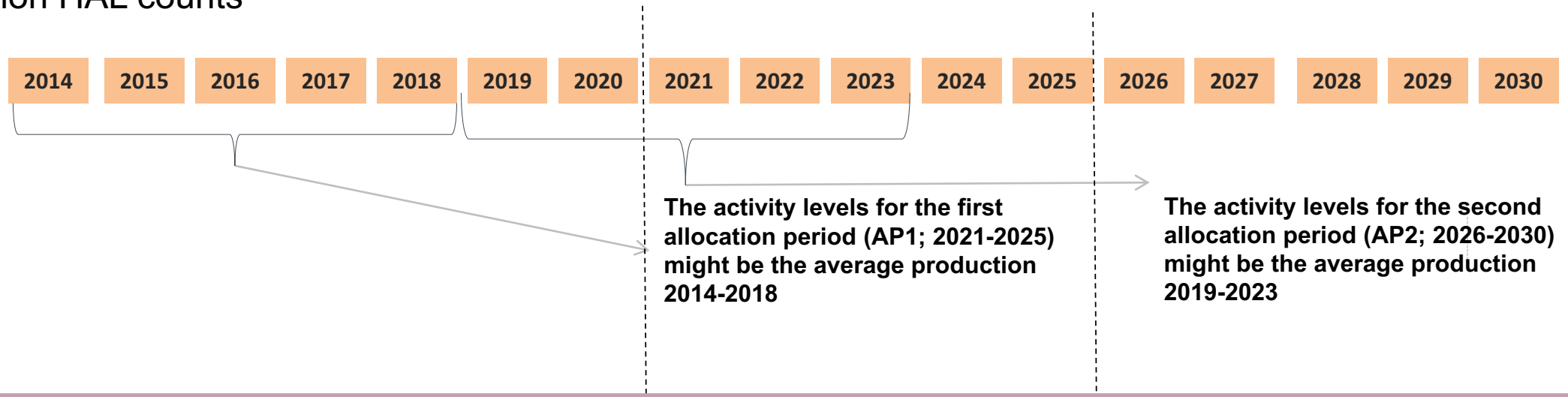
Calculation of HAL counts



Methodology for HAL in Phase 4 needs to be flexible

Calculation HAL counts



Solution:

HAL to represent actual operations for all businesses:

Industry should have options (as today):

1. **Average of the 5 years period, median or average of 3 highest years**
2. **Regulation when proven physical investments**

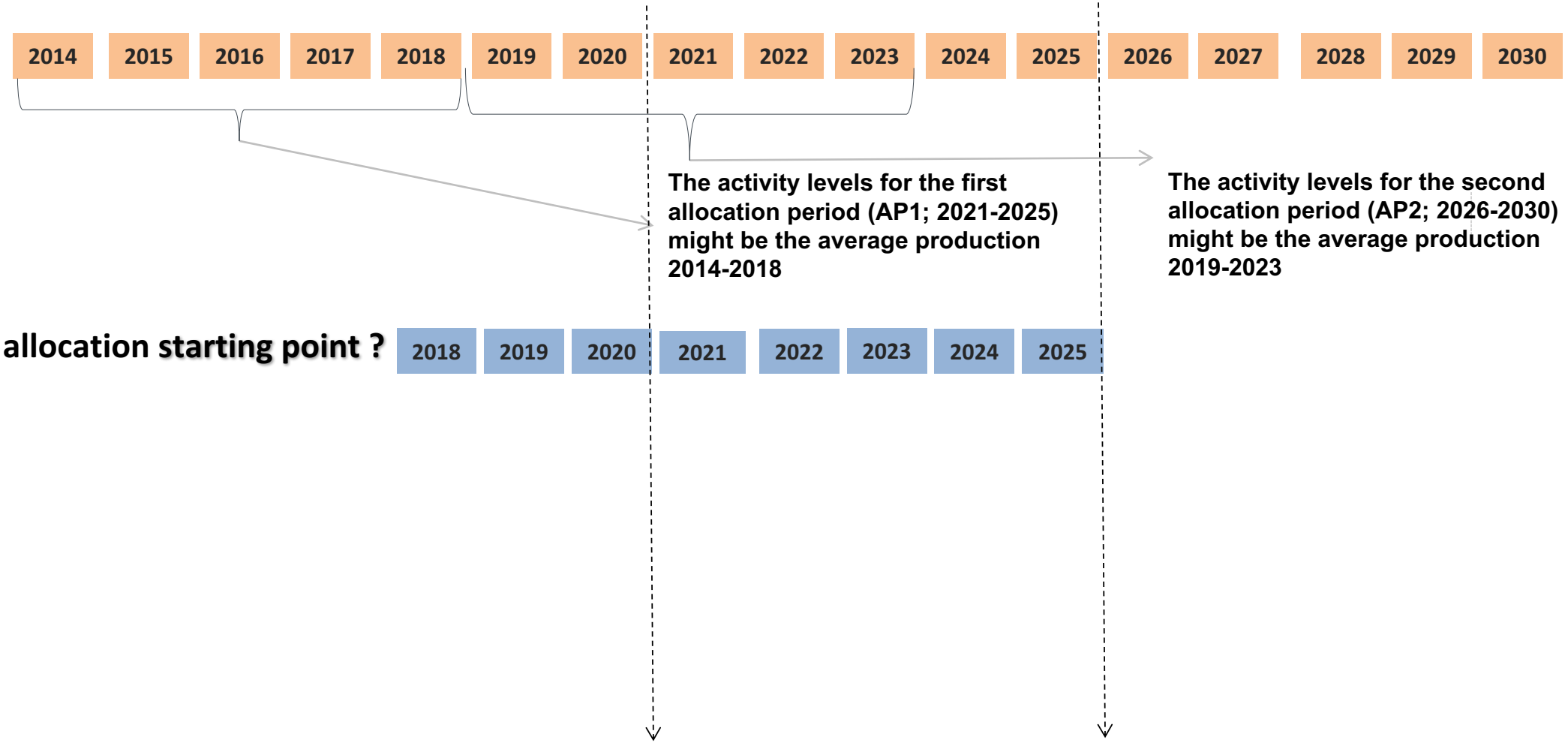
Production Changes (Dynamic allocation) in Phase 4

Recital 12 of the EU ETS Directive

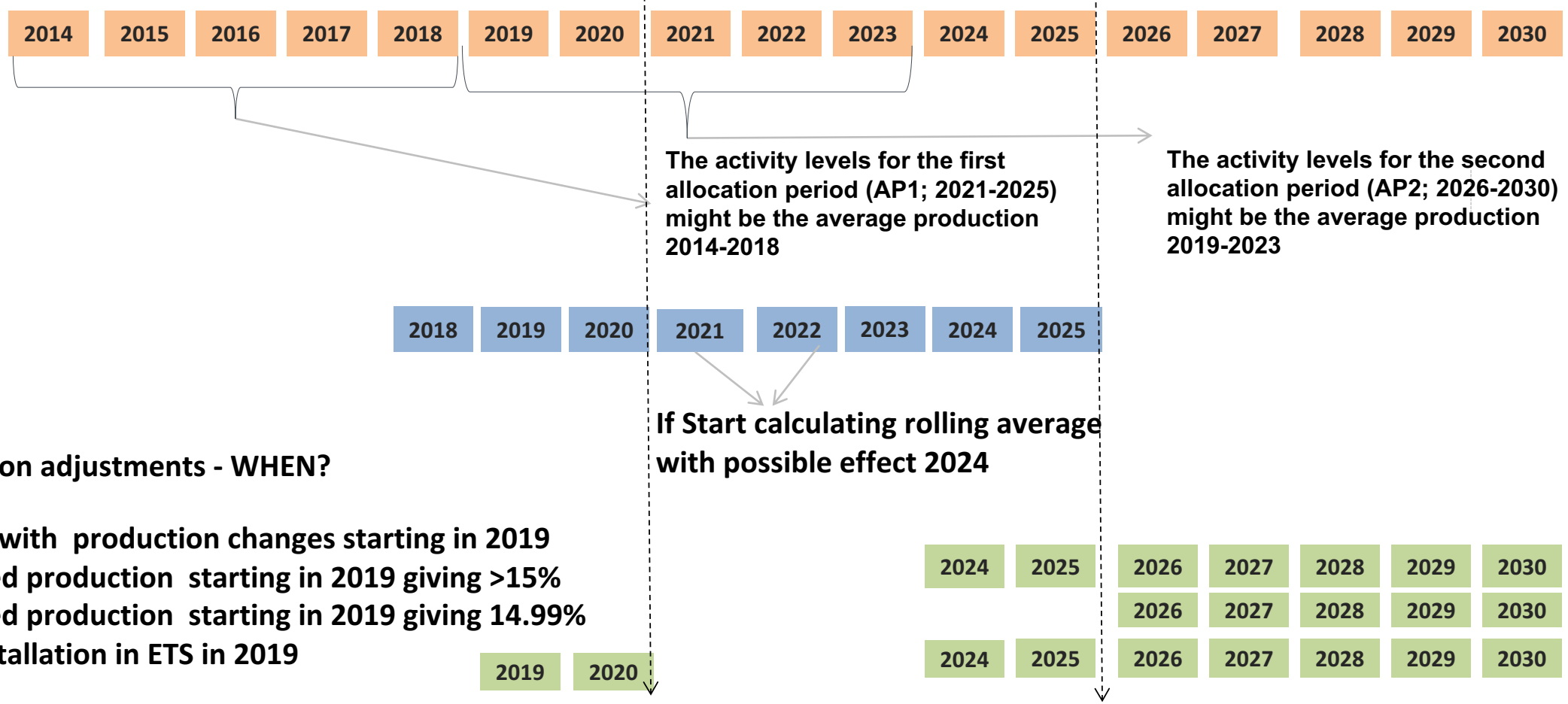
*"The relevant threshold **should be set at 15%** and be assessed on the basis of a rolling average of two years."*

Dynamic Allocation: When does it start ?

Calculation HAL and Starting point of rolling average count



Start and effects of Dynamic Allocation count

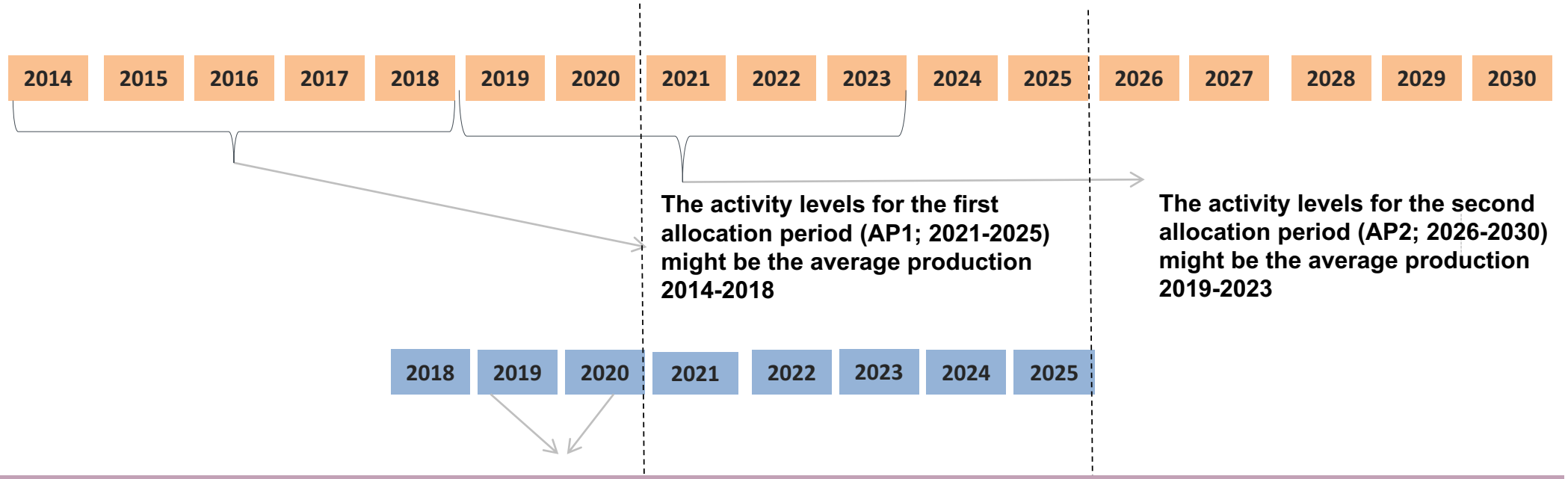


Free allocation adjustments - WHEN?

Three cases with production changes starting in 2019

1. **Increased production starting in 2019 giving >15%**
2. **Increased production starting in 2019 giving 14.99%**
3. **New installation in ETS in 2019**

Conclusion: Ensuring a more fair and dynamic allocation



Solution:

- **Start annual rolling average from 2019-2020,with effect in 2021**
- **and always relate production change to HAL level.**
- **With regulations when proven physical investments**

Honor physical investments

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Incentivise efficiency improvement

- **Recital 12 of the EU ETS Directive**

"*The Commission* ***should be able*** *to* ***consider further measures to be put in place****,* ***such as*** *the use of* ***absolute thresholds*** *regarding the changes to allocations, or with respect to the* ***deadline that applies to the notification of changes in production****".*

Solution:
Possibility to introduce a more tailored, dynamic system to adjust free allocation, when physical investments are proved and if the adjustment is lower than 15%

Learning from history..

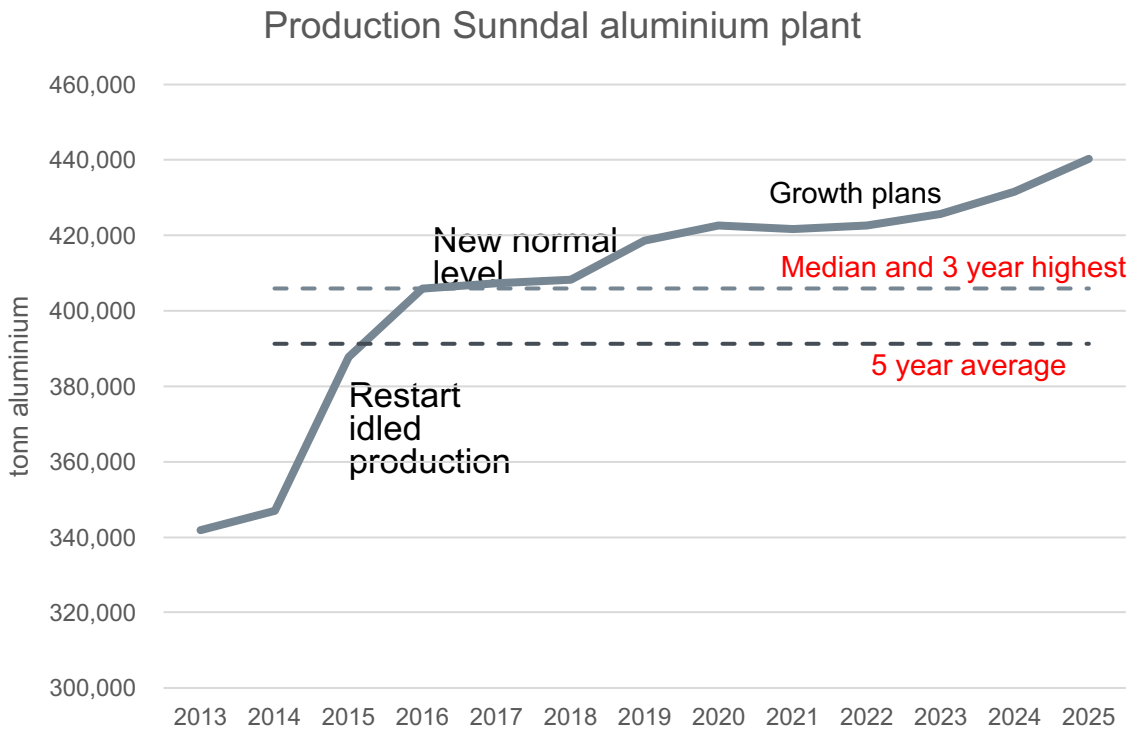
- Phase 3 weakness:
  - Huge overcompensation due to:
    - 49.9% reduced production and keeping 100% unneeded free allocation
  - Not honouring growth or all low carbon investments
- Phase 4 slightly better but:
  - HAL definition should be more flexible
  - Dynamic Allocation
    - ✓Should give incentives to growth and avoid overallocation from 2021
    - ✓Should consider physical investments leading to less than 15% growth

Therefore: More options for industry to choose HAL calculation method, make dynamic allocation more dynamic and reward physical investment

Example: Sunndal primary metal plant

HAL defined as average of 2014- 2018, will not represent the actual production level and 15% too high threshold

- Production evolution:
  - 2010 closure of one production line due to financial crisis
  - 2014/15 physical investments for restart
  - Full production from 1.1 2016
    - Plans to further increase production
- HAL average of 2014- 2018
  - Not represent the normal production level after restart
  - **Median and 3 highest better representation**
- Dynamic allocation
  - **Production increase will never pass 15% threshold**
- **Solution**
  - **Median and 3 year highest the best solutions.**
  - **But options to adjust HAL if physical investments, as today**
  - **Even if the increase is lower than 15%**



Conclusions

The new proposed regulation must reflect all business cases

1. Companies competitiveness is influenced both by HAL and Dynamic system
HAL and dynamic regulation should be considered at the same time

2. HAL to represent actual operations for all businesses
- **i.e. industry should have options (as today)**

3. Dynamic Allocation to start from 2019-2020, with effect in 2021 and an annual update
- **and production change always related to HAL level**

4. No absolute thresholds when proven physical investments.

Footnotes, sources etc. can be placed in this text box – 8 pt.

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We are aluminium