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**Units B1 (EU ETS Policy Development and Auctioning)
and B3 (International Carbon Market, Aviation and
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Stanowisko Związku Pracodawców Polska Miedź w sprawie konsultacji dot. zmian klimatu – aktualizacji unijnego systemu handlu uprawnieniami do emisji (ETS).

The Polish Copper Employers' Association position paper on Amendment of the EU Emissions Trading System (Directive 2003/87/EC) – COMMENTS ON THE INCEPTION IMPACT ASSESSMENT (IIA)

Konsultacje publiczne aktualizacji przepisów dot. unijnego systemu handlu uprawnieniami do emisji (ETS) (Dyrektywa 2003/87/EC)

Proposal for a directive - Inception impact assessment - Ref. Ares(2020)6081850 - 29/10/2020 – Amendment of the EU Emissions Trading System (Directive 2003/87/EC)

The Polish Copper Employers' Association (former Employers' Organization of Polish Copper) (Związek Pracodawców Polska Miedź) was established in 1996. We are the biggest, independent and not-for-profit regional employers' organization whose goal is to represent and protect employers' interests. We welcome a European Green Deal to put Europe on the right track to a sustainable future and is prepared to take the necessary measures to make it the world's first climate neutral continent.

As the representative of the Polish metals mining, processing and smelting industry, we welcome the Commission's renewed EGD Strategy for Adaptation to Climate Change as a part of actions for a greener and cleaner economy. We are committed to substantially contribute to climate change adaptation. We also believe that an updated Strategy for Adaptation to Climate Change should focus both on prioritizing policy areas and actions where EU interventions can be most effective as well as on assessing how to increase ambitions in a manner that best contributes to sustainable growth and enhances economic competitiveness.

The EC report "A Clean Planet for All" shows that raw materials are indispensable enablers for carbon-neutral solutions. Copper is a key material for the energy transition facilitating GHG emission reductions in numerous other sectors, from renewable energy generation, through energy efficient end-use appliances to electrified transport, heating and cooling systems as well as smart

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engineering, buildings and computer grids. It is also a key material in battery production, so its contribution to the new EU climate policy is significant and indispensable to meet the Green Deal goals, Europe needs a strong, competitive industry.

As stated in the study "Metals for a climate neutral Europe"¹ the European non-ferrous metals (NFM) sector's strategic status and globally-set pricing mechanisms means it faces high international competition:

- Europe is already highly dependent on imports of primary raw materials, with other value chain stages under pressure;
- China's share of NFM production has grown dramatically in the last 15 years, largely based on coal-powered electricity.

This makes the threat of EU production being replaced by more carbon-intensive non-EU production very real, despite the fact that Europe's metal producers are switching to clean electricity more than any other energy-intensive industry as one of the world's leading environmental champions. Today, China accounts for 30 to 54 % of world demand for all base metals. The growing European demand for copper and copper products also causes a large (about 23% in recent years) increase in the import of finished products from this metal. Recently in its Conclusions the Council² highlighted that achieving strategic autonomy while preserving an open economy is a key objective of the Union in order to self-determine its economic path and interests and recalled that this includes identifying and reducing strategic dependencies and increasing resilience in the most sensitive industrial ecosystems and specific areas. Today's COVID-19 epidemic clearly shows the relevance and accuracy of this statement.

In past years the European raw materials industry has radically progressed in productivity and energy efficiency and is still implementing new solutions aiming at further reducing the energy consumption per unit and improving carbon-intensive operations. As the world shifts to a low-carbon future, mining companies explore methods of decarbonisation in order to efficiently and effectively fulfil the continued increasing demand for resources. Compared to 1990 levels, the European non-ferrous metal industry already reduced its greenhouse gas emissions by 61% in 2015. Without the products of the European non-ferrous metals industry, the ongoing technological revolution around us would be noticeably slower and much smaller than what we are all used to in recent years.

Because of the rapidly growing demand we should also not forget about mining. According to the report of Euromines "Providing metals and minerals for carbon neutrality"³ the raw materials mining industry is an integral part of any economy and society. Standing at the beginning of most value chains, the sector is a critical supplier of essential materials and products and therefore generates added value and growth through employment, economic growth, development, innovation and generating trade. To continue economic growth and demographic change as a modern society, extraction of commodities will remain essential.

For these reasons and with reference to the options to be explored in the EU-ETS revision process, we would like to draw the attention to several issues:

¹ VUB, Institute for European Studies "Metals for a Climate Neutral Europe. A 2050 Blueprint", <https://www.ies.be/node/5271>

² <https://www.consilium.europa.eu/en/press/press-releases/2020/11/16/towards-a-more-dynamic-resilient-and-competitive-european-industry-council-adopts-conclusions/>

³ http://www.euromines.org/files/euromines_decabonisation_final.pdf



1. Addressing the linear reduction factor to meet the higher 2030 target of at least 55%, a one-off reduction of the cap that would put it closer to the actual emissions level, as well as the interaction with the MSR.

Increasing the LRF of the cap is the most straightforward way to readjust GHG emission trajectory towards long-term higher ambition in 2030 and 2050 climate neutrality goal. Short-term application of one-off reduction of the cap to the Community-wide quantity of allowances directly influences in the absolute number of allowances in circulation, and hence poses risk to the efficiency of free allocation architecture.

One-off reduction of the cap has potentially significant negative effects on industry in two ways:

- Absolute reduction of free allowances exacerbates the carbon leakage risks in vulnerable industry sectors. At least a decade is needed for the deployment of new processes and upscaling fuel switching, while ensuring these technologies become competitive vis-à-vis conventional production.
- Higher carbon prices have direct impact on energy costs, which are relatively higher for producers from carbon-dependant countries. Especially when we take into consideration typical in such cases low availability of affordable capital for the necessary decarbonisation investments.

It is important to assess the interdependence between supply-side policies such as MSR, LRF increase, rebasing and adjusting cap trajectory. Any changes shall address first and foremost the issue of carbon leakage protection of industry sectors that are increasingly vulnerable due to higher allowance scarcity and diminishing available free allocation, rising energy costs and high capital investments necessities.

2. Improving support for low carbon and carbon-removal investment and innovation (such as contracts for difference through existing initiatives such as the Innovation Fund).

We all agree that achieving further reductions in industry will depend on proving the technical and economic feasibility. However, at the moment breakthrough technologies won't be ready for energy intensive industrial processes until 30s. and they are extremely expensive. Moreover, the industrial sectors also require new infrastructure capable of delivering renewable energy and low carbon solutions (e.g. hydrogen and e-fuels) to their installations.

Industry is faced with uncertainty when considering the investments required to meet lower carbon reduction targets. Some of this might be relieved by public incentives support. It is important to introduce R&D programmes dedicated to the raw materials industry's low-CO₂ technologies. Support for development, piloting and up-scaling of key innovative decarbonisation and energy efficiency technologies is necessary.

In particular CCS and CCU will be needed for a number of mineral processing since naturally occurring compounds will continue to emit CO₂ which ideally needs to be used, rather than emitted.

As far as hydrogen is concerned global market information shows that the current application/use of this technology in metallurgy takes place only in hydrometallurgical recovery of elements. Many aspects of its use have not been sufficiently researched, including working environment safety and smelter's infrastructure operation safety when using hydrogen in high temperature. In particular, it is about ensuring that hydrogen and oxygen contact is carried out safely. At present, the level of maturity of this technology in non-ferrous metallurgy is too low to think about its widespread use.



Therefore in the transitional period it will be necessary to support gas-based solutions. Energy from renewable sources is increasingly used, Polish copper industry is investing heavily in solar farms - the first projects are already under way, followed by other in upcoming years. According to the company's strategy, by 2030 50% of energy demand will be covered by its own sources, including RES. However, we cannot act in isolation from the external conditions resulting from the country's energy-mix.

A possible answer to these challenges is the SPIKE (*Self-balancing Industrial Innovative Energy Clusters*, in Polish *Samobilansujące Przemysłowe Innowacyjne Klastry Energetyczne*) concept. That provides a comprehensive solution aimed at zero-emission transformation of industrial plants and their immediate surroundings. The clusters will systemically combine the electrification of production processes, local RES, existing industrial energy infrastructure, effective energy storage technologies and optimisation of power network configuration. They would be created on the basis of dispersed production capacities, located close (often even in the immediate vicinity) to energy-intensive industrial plants. This would significantly relieve the load on the transmission networks and thus enable more optimal planning of their further development.

Combining all of these elements would create a new quality - a cluster that would be able to:

- significantly reduce or even completely eliminate own CO₂ emissions (thanks to electrification of its production processes based on its own RES);
- stabilise own energy system through the use of efficient energy storage facilities and - in the transition period - low emission reserve sources in the form of high-efficiency gas and steam units;
- significantly relieve the national power system both in the context of development and modernisation of generation sources as well as the necessary transmission and distribution infrastructure;
- if necessary, support the stabilisation of regional power systems or even the national power system.

However, building of such clusters will require sufficient regulatory and financial support.

3. The ETS contribution to addressing specific distributional and innovation challenges related to the transition to climate neutrality and its impacts, including the use of auction revenues and the Modernisation and the Innovation Fund.

Non-European producers don't invest in adapting their production processes to EU environmental requirements (their products have up to eight times the carbon footprint of European equivalents) Therefore, in view of their growing market position, it is necessary to provide comprehensive and real support for the Europe's independence from imports from other regions of the world.

New investments in zero-carbon energy sources and industrial installations in Polish industry may require billions of euro by 2050. Large part of these investments will need to be covered by EU's dedicated mechanisms as it exceeds company's ability to generate free cash or debt money.

NFM price volatility and the constant need to sustain production through investments leads to a significant increase in companies' debt during economic slowdown, while at the same time they struggle with increasing costs (environmental standards & investments) and strong competition from outside Europe. In this situation companies reduce its dependence on loans and try not to increase current debt. Therefore they would welcome other ways of financing investments without burdening the balance sheet.

A key driver for securing the EU strategic autonomy is that the increase in total demand for materials can only be met by increasing both primary and secondary materials production and use. The relatively high labour costs for secondary production methods also hampers further penetration



of secondary non-ferrous metals in the central baseline projection. This is why we need funding programme, which will help to increase our energy efficiency and recycling process and thus keep the costs low enough for this part of the business to constantly develop and progress.

For example, replacing diesel machines with electric ones is essential to reducing carbon emissions in mining. Most mines and quarries in the EU are dependent on the national grid for their electricity supply, which means that industry has to pay for indirect costs in the price of electricity. This can have considerable impact on the mining industry competitiveness. The cost versus benefits of phasing out diesel in a mine is heavily dependent on the characteristics of its operation. The electrification of mining equipment will cost up to billions of euro for big mining companies, and also for SME sector, because it will require not only purchasing completely new, electric machines but also large investments in infrastructure (electric grid, recharging points).

4. Carbon leakage provisions, such as free allocation rules and updating emission benchmarks, coherence with a potential carbon border adjustment mechanism, indirect cost compensation.

Thus far, free allocation and indirect cost compensation measures have been directly aimed at mitigating carbon leakage risk for industry. Looking ahead to mid-century, a combination of policy measures is needed to prevent carbon leakage of industry whilst facilitating their transition.

Most notably these measures are:

- free allocation
- indirect cost compensation.

A potential increase in reduction targets for ETS sectors has to be accompanied by a reinforcement of the existing carbon leakage measures. Additional measures such as a Carbon Border Adjustment Mechanism, which addresses imports of carbon intensive products, should co-exist with the current system.

We thus believe that an adequate indirect compensation scheme and free allocation (not a CBAM) are more optimal way to protect our sector from carbon and investment leakage in Phase IV of the EU ETS.

In addition companies from raw materials mining sector would also need a support in the form of compensation schemes of indirect emissions. Standing at the beginning of most value chains non-ferrous metals will remain a key supplier of materials and products essential to modern economies and for the twin transition. With the heavy dependency of Europe on imports of metal ores and concentrates, including 100% dependence on imports of several special metals and rare earths, the carbon leakage protection for mines is an essential tool helping to achieve an increased EU resilience.

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The position was prepared on the basis of expert opinions from member entities of the The Polish Copper Employers' Association.