

Revision of the EU ETS

European Copper Institute position

ECI supports the EU's climate ambitions for 2030 and 2050. The copper industry is ready to do its part.

Copper makes a significant net contribution to the clean energy transition as a sustainable raw material that is needed to decarbonise the economy. As an energy intensive industry, the copper sector is also working to further reduce its own carbon footprint.

Strong protection against carbon leakage is essential for the delivery of the environmental goals of the EU ETS and the competitiveness of the European copper industry as a price taker in global markets.

To deliver on the ambition of reducing GHG emissions by 55% while ensuring a competitive, increasingly decarbonised raw materials industry in Europe in 2030, it is important to ensure adequate free allocation under the revised ETS in Phase 4.

To achieve this goal, the Commission proposals on the ETS and the Market Stability Reserve (MSR) should be amended as follows:

1. The Linear Reduction Factor should be relied on as the main tool to achieve the 61% reduction in emissions.
2. More flexibility should be introduced in the MSR to avoid triggering the Cross Sectoral Correction Factor.
3. The methodology for fall-back benchmarks should be amended to ensure that free allocation is based on realistic benchmarks.
4. The avoided CO₂ emissions from the integrated production of other metals as by-products of the copper production process should be considered in the free allocation methodology.

It is also important that the ETS framework for fossil fuels used in transport and buildings is kept separate from the existing ETS framework.

Copper makes a significant net contribution to the clean energy transition

(1) As a sustainable raw material that is needed to decarbonise the economy

More copper is needed for the clean energy transition. Thanks to its excellent electrical and thermal conductivity, copper delivers energy savings and CO₂ reductions across the electricity system, in transport, buildings and industry.

Copper is used in applications such as windmills, power grids, electrical installations, solar panels, electric vehicles, charging infrastructure, building automation, energy storage, solar thermal, wastewater heat recovery, heat pumps and batteries. Overall,

copper-enabled decarbonising technologies can abate approximately 75% of the EU GHG emissions¹.

The additional copper demand generated by the energy transition is compatible with the move towards a circular economy. Copper can be recycled endlessly without loss of properties and around 50% of copper produced in the EU is obtained through recycling. Copper also contributes to resource efficiency as a carrier metal and by-products of copper production include other metals needed for the energy transition, such as nickel.

(2) As an energy intensive industry that is working to reduce its carbon footprint

The copper industry makes up approximately 0.4% of the EU's GHG emissions. The industry has significantly decreased the per-unit energy consumption of copper through improvements such as flash smelting, use of oxygen, energy management and excess heat recovery. Copper producers are working to further reduce their carbon footprint for instance through increasing electrification and the use of renewable energy. The use of electric trucks and machinery, battery energy storage as well as hydrogen are also being explored. As an industry we are putting together a decarbonisation roadmap to 2050, while in parallel individual copper producers are working hard to define and realise their specific decarbonisation pathways.

This is a huge challenge that will require massive investments in the development and deployment of innovative production processes and solutions to further improve energy efficiency and reduce emissions, without compromising efforts to further increase recycling and circularity in the copper value chain.

Why do we need protection against carbon leakage?

The EU's climate ambitions and policies are much stronger than those of other countries and regions. These policies lead to higher operational costs for energy intensive industries like copper, for instance through the price we pay for emission allowances or indirectly through the higher prices we pay for electricity to power our production processes.

Because copper is traded on global commodity markets, copper producers cannot pass on the cost increases brought about by regulatory measures to consumers without losing market share to non-EU producers who do not face the same costs.

This means that as long as third countries do not have climate policies resulting in equal climate costs for industry in the same timeframe as the EU, it is of crucial importance that the EU legal framework provides robust protection to avoid the relocation of production sites to countries outside the EU that have less stringent environmental regulations.

¹ Copper estimate based on the EU 2050 "High-RES" scenario of the EU 2050 energy roadmap, plus additional assumptions about the uptake of emerging technologies.

https://ec.europa.eu/energy/sites/ener/files/documents/2012_energy_roadmap_2050_en_0.pdf

GHG estimate based on DecarbEurope. <https://decarbEurope.org/>

Without strong protection against carbon leakage, both the delivery of the ETS environmental goals and the competitiveness of the European metals industry are compromised. It is therefore important to

- keep the current State Aid framework until 2030 to allow Member States to compensate electro-intensive industries for increased electricity prices they pay as a result of higher carbon costs that utilities pass on in the electricity price ; and
- ensure adequate free allocation under the revised ETS in Phase 4

The EU ETS revision is an opportunity to deliver on the 55 percent ambition AND ensure we have a competitive, increasingly decarbonised raw materials industry in Europe in 2030

These two outcomes can and must be aligned.

As a general principle, the ETS framework should not be geared to increase the carbon price beyond what is needed to achieve the higher ambition of a 61% reduction in GHG emissions by 2030. The reduction of GHG emissions by the ETS sectors by 61% is a drastic steepening of the current level of ambition. This is the decade when most investments need to be made to pave the way for carbon neutrality in 2050. Unnecessarily increasing costs to European industry during this time, and in particular to a price-taker industry like copper, would be counterproductive.

The following changes should be made to the Commission proposals on the ETS and the MSR to achieve this result:

(1) Rely on the Linear Reduction Factor as the main tool to achieve the 61% reduction in emissions.

This ambition can and should be reached through the increase of the Linear Reduction Factor, which provides a predictable trajectory for reducing free allocation. However, the Commission proposal also foresees the application of 'rebasing' (a one-off cancellation of allowances once the new ETS framework enters into force) as well as an increase in the amount of allowances put in the Market Stability Reserve.

These additional measures are not needed to achieve the 2030 ambition² and will lead to a more volatile market and put further upward pressure on the carbon price. The current carbon price is already higher than assumed by the Commission in the ETS impact assessment, while independent analysts expect average prices in 2021-2030 to remain higher than the EUR 50 average assumed by the Commission.

Rebasing and a strengthened MSR will further increase the carbon price and increase costs for industry during the decade when significant investments need to be made in low-carbon technologies. As the surplus on the carbon market is

² The Commission Impact Assessment shows that a 61% reduction of emissions for the ETS sectors can be reached by 2030 solely through a higher LRF, without rebasing or a strengthened MSR. Table 6 of the Impact Assessment illustrates that option AMB2c combining the LRF with rebasing results in an ETS cap with 355 million allowances less than the same scenario without rebasing (AMB2a); while both options deliver on the higher 2030 ambition.

reduced, this will also hinder the ability of the industry to hedge its increasing exposure to price movements. We therefore suggest relying on the LRF as the main tool to achieve the 61% reduction.

(2) Introduce more flexibility in the Market Stability Reserve to avoid triggering the Cross Sectoral Correction Factor

It is important to avoid triggering the CSCF as it would cut free allocation for all sectors in a more disruptive way, without consideration for the different carbon leakage risk and abatement potential of sectors. To ensure the 61% reduction is achieved without triggering the CSCF, more flexibility should be introduced in the MSR.

The invalidation clause of the MSR should be amended to allow a part of the allowances held in the MSR exceeding the previous year's auction volume to be retained in the reserve with a possibility to release them in the market if needed to avoid triggering the CSCF. This could be limited so as not to interfere with the 61% GHG emission reduction target.

(3) Ensure that free allocation is based on realistic benchmarks

Today the heat and fuel fall-back benchmarks do not adequately reflect the reality of some of the sectors that rely on these benchmarks for the allocation of free allowances to their installations. Currently these fall-back benchmarks are based on the abatement potential of sectors that can widely use biomass to reduce their emissions. The copper sector cannot rely on biomass to reduce emissions³.

The Commission has proposed to increase the maximum annual rate at which benchmarks can be updated from 1,6% to 2,5%. This would mean that the benchmark values for the heat and fuel fall-back benchmarks would be reduced by 12,5% between 2026 and 2030, as opposed to 8%. **For sectors like copper that do not have specific product benchmarks but rely on fall-back benchmarks, this would mean a 50% reduction of free allowances by 2030.**

We believe it is not fair that the copper sector would receive significantly reduced free allocation because the industry relies on fallback benchmarks that are based on the decarbonisation potential of sectors very different from ours. This also leads to unequal treatment with competing sectors that have product benchmarks.

The benchmarks methodology should therefore be amended to ensure that the heat and fuel fallback benchmarks reflect the reality of the sectors covered. These fallback benchmarks should be sector specific, to ensure that due consideration is given to sectorial and geographical differences. For metals, the fallback benchmarks should be based on the average of the reduction rates of existing metals product benchmarks, as opposed to all product benchmarks.

³ Primary smelting of copper is an exothermic process in which sulphur oxidation results in high heat, so no additional heat sources are required; whereas in secondary smelting the use of biomass as a fuel or for melting copper is limited by the very high temperatures that are required. The use of biomass during melting processes can also jeopardize the high purity of refined copper as required for use in electrical applications. Furthermore the use of biomass is problematic due to the fact that it leads to increased emissions of particulate matter, NOx and dioxins.

(4) Acknowledge avoided CO₂ emissions from integrated production of by-products

Copper smelters and refiners produce a number of other metals as by-products of the copper production process, including gold, silver, platinum group metals, tin, nickel, lead and selenium. Over 19 million tons of CO₂ are saved annually as these metals are produced through an integrated process associated to copper production, compared to conventional production routes. We believe that avoided CO₂ emissions from the production of by-products should be considered in the free allocation process under the ETS.

Other considerations:

The Commission has proposed to make full free allocation **conditional** on the implementation of the recommendations of the energy audit that installations must conduct under Article 8(4) of the Energy Efficiency Directive. Free allocation is reduced by 25% if the recommendations with a payback time not exceeding 5 years are not implemented (or other measures with equivalent effect).

We believe that a mechanism should be established to allow for an appeal process in case of non-conformity with the audit recommendations. Auditors may not always have an adequate understanding of complex industry processes, so where the installation disagrees with the audit results, it should have the possibility to appeal to an independent body.

The **extension of the EU ETS to maritime transport** could lead to an increase in maritime transportation costs for the EU raw materials industry if shipping operators pass on the cost of carbon to customers. The Commission should therefore closely monitor the evolution of maritime transport costs following the extension of the ETS to this sector and if needed, propose remedial action.

The EU ETS for fossil fuels used in transport and buildings must be kept separate

Around 27% of CO₂ emissions in the EU are related to transportation and 36% to energy used in buildings. These two sectors have an essential contribution to make to deliver the EU's 2030 ambition and electrification of heating and transport will play a key role. The production of electricity is covered by the existing ETS and the related emissions are following a clear reduction trajectory. Yet, taxes and levies remain higher on electricity than on gas.

Adding a carbon price on fossil fuels used in buildings and transport can help correct this unbalance and incentivise cleaner electrified solutions in these sectors. The proposed extension of the ETS to fossil fuels used in buildings and transport also defines a clear reduction trajectory for these emissions.

Nevertheless, the price elasticity of energy demand for households is not the same as for industry and a carbon price should not be considered as the main solution. Other instruments such as emission standards for buildings and cars, long term renovation strategies and supporting and financing measures are essential elements addressed in

other pieces of the Fit for 55 package. The most vulnerable households must also be protected from energy poverty and supporting the renovation of their housing must be seen as a priority.

Ideally, these separate instruments and efforts should allow following the emission reduction trajectory in buildings and transport so that the price of allowances will remain low. In any case, this extension of the ETS must be kept separate from the current ETS so that the two markets can be managed according to their specificities.

About the European Copper Institute

The European Copper Institute (ECI) is the leading advocate for the copper industry in Europe and the European arm of the International Copper Association (ICA). Our members mine, smelt, refine and recycle copper for use across the economy, in the electricity system, buildings, transport and industry.