

Carbon Leakage Qualification Criterion in the ETS

A qualitative assessment and a recognition that globally priced industries are unable to pass regional carbon costs are needed to ensure equal treatment for EU non-ferrous metals producers

The European Copper Institute (ECI)¹ understands that certain co-legislators are currently considering the removal of the qualitative aspect from the carbon leakage qualification. This paper seeks to outline to policymakers the “on the ground” impact that the qualitative assessment removal would have both for the non-ferrous metals sector and for the ETS itself (Negligible emissions reductions). It encourages policymakers to take into account the specificities of the copper sector and to recognize that globally priced commodities (i.e. metal price set by London Metal Exchange) cannot pass on their addition carbon costs.

This paper makes two recommendations to policymakers:

- 1) Maintain the option for a qualitative assessment for carbon leakage qualification and protection
- 2) Incorporate the ‘price-taker’ market characteristics as a recognition that globally priced commodities cannot pass on their addition carbon costs.

Why the option of the qualitative assessment to carbon leakage risk must be maintained

i. **Market complexity: An arbitrary quantitative ‘one size fits all’ approach is unable to grasp the ‘on the ground’ market complexities**

A purely mathematical, quantitative formula - the multiplication of a non-linear factor (trade intensity) and a linear factor (emission intensity) - is unable to grasp the complexities of market conditions. In order to adjust for this, additional, qualitative criterion, are needed to balance out the significant methodological weakness of the rather arbitrary procedure of multiplying trade intensity by emission intensity. Simply put, sectors which believe that their market conditions justify full carbon leakage protection, should be able to reach out to authorities and present their reasons for such. **Copper’s sector best performers must not face undue carbon costs.**

ii. **Limited application: Given the process, only a limited number of sectors qualify via a qualitative assessment**

It should be noted that the burden of proof always rests with the sector/sub sector to demonstrate its eligibility to qualify for a carbon leakage assessment under a qualitative approach. Primarily, and before being considered, sectors and sub-sectors who need eligibility for carbon leakage protection on that basis must be prepared to submit convincing evidence and transparently report data. This has de facto led to only a small group of entitled sectors applying. Indeed, under the current carbon leakage list (2013-2020), only a very small number of (sub) sectors qualified via a qualitative assessment.

iii. **Negligible impact on overall emissions reduction**

Elsewhere, it should be noted that the impact of removing the qualitative threshold on total sector emissions volume is negligible (a few percentage of the total free allocation). It is ECI’s view that citing administrative burden or a blanket desire to reduce the number of sectors of the Carbon List does not represent a good enough reason to remove these sectors from the list.

Similarly, ECI supports Eurometaux’s view that a desire to “simplify” the ETS by removing the qualitative assessment does not represent a good enough reason either. Indeed, the chief impact of the removal would be to undermine the effectiveness of the ETS and would, in essence, be bad regulation – something which runs counter to the EU’s ‘Better Regulation’ agenda.

¹ The European Copper Institute (ECI), headquartered in Brussels since 1998, represents the copper industry in Europe and is part of the Copper Alliance, a global network of 25 industry associations. The EU copper sector includes the producers of refined copper and the manufacturers of semi-fabricated copper and copper alloy products, such as tube, wire, sheet and strip. EU Transparency Register ID 04134171823-87

Why the “price-taker” market characteristics need to be incorporated as a recognition that globally priced commodities cannot pass on their additional carbon costs

i. Market specificities

In particular, ECI, jointly with Eurometaux would highlight to co-legislators that price-taker market characteristics need to be taken into account. ‘Price taker’ sectors are those whose products are traded on a global commodity exchange at reference world market approach (eg London Metal Exchange, LME). Thus, they are industries whose products are demonstrably incapable of passing on additional local costs. As a result of the copper sector’s price taker characteristics and globally traded LME copper commodity price, any additional load is anti-competitive. Indeed, a recent Commission study² concluded that it was not possible for CO₂ prices to be integrated into product prices in the non-ferrous metals industry.

ii. Regulatory Consistency

It should be noted that a similar approach, which combines quantitative and qualitative methodology and incorporates the price taker criteria, is currently used for the **EU’s State Aid Guidelines for the indirect costs of the ETS (2012/C 158/04)**. In the guidelines, it was noted that “account was taken of available market related evidence indicating that the (sub)sector cannot pass on the increased indirect emission costs to its clients without losing significant market share in favour of its third country competitors”. In order to ensure regulatory continuity a similar approach needs to be followed in Phase IV of the ETS.

iii. The contribution of non-ferrous metals to the circular economy

As noted in a recent European Parliament report³, EU Climate legislation needs to take into account the positive role base metals play in the circular economy, helping to significantly reduce raw energy and material input. By using a solely quantitative approach, industry efforts to increase the recycling of complex, metals bearing materials, containing more and more plastics (e.g. electronic scrap and automotive wire harnesses) would be undermined.

Looking ahead, the likely result would be that these the recycling/production of these raw materials would instead take place in countries with poorer technologies and less stringent environment standards. Copper-based technologies . . . could reduce EU total CO₂ emissions by 25% by 2050. In 2014, 2.1 million tons of copper were reused in Europe, coming from end-of-life products and directly-recycled factory waste. This increased recycling of copper is being driven by the growth in use of the metal across the planet and by demand for world class European companies’ pioneering technologies allowing for increased efficiency in refining secondary (low grade) scrap and in processing for direct melt high purity copper scrap⁴. The more copper that are produced & recycled in Europe overall, the better in the global fight against climate change.

Policy Request

The Copper Industry calls for:

1. Maintaining the option for a qualitative assessment for carbon leakage qualification
2. Incorporating the ‘price-taker’ criteria as a recognition that globally priced industries cannot pass on their regional carbon costs

² Report on developing a sustainable European industry of base metals: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A8-2015-0309+0+DOC+PDF+V0//EN>

³ Report on developing a sustainable European industry of base metals – Committee on Industry, Research and Innovation, Text adopted December 2015, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2015-0460+0+DOC+XML+V0//EN>

⁴ Learn more about copper recycling at <http://copperalliance.eu/about-copper/recycling> and its contribution to a low carbon future at <http://copperalliance.eu/docs/default-source/resources/copper's-contribution-to-a-low-carbon-future---a-plan-to-decarbonise-europe-by-25-percent.pdf?sfvrsn=0>