

CARBON BORDER ADJUSTMENT MECHANISM

- KGHM POLSKA MIEDŹ S.A.

COMMENTS ON THE INCEPTION IMPACT ASSESSMENT

KGHM Polska Miedź S.A. is a Polish multinational corporation that employs over 32,000 people around the world. We have been a major copper and silver producer for more than 50 years.

The introduction of CBAM at EU level is justified by the need to support EU efforts to reduce CO₂ emissions. The absence of a burden on imports equivalent to the cost incurred by European industry means that non-EU producers are not motivated to take pro-climate action. This limits the impact of EU action on environmental issues and threatens the development of industry and jobs in the EU.

However, we believe that the first necessary step is the detailed, well-grounded impact assessment before any decisions are taken. It should take into account not only CBAM, but also consider additional carbon leakage measures. If introduced, CBAM should first be tested on a smaller scale to fully understand its impact and effectiveness. It will reveal if it is an effective mechanism against carbon leakage. Such pilot phase should cover only selected sectors. During the testing phase, the system should be simple and easy to use with the minimized risk of retaliation. For this reason, compliance with WTO rules is of particular importance.

We are of the opinion that the copper sector should not be included in the CBAM pilot phase, because of the two main reasons:

a) due to the pro-export nature of this activity and the related possibility of retaliation (compliance with WTO rules may not be sufficient, third countries may still decide to implement retaliatory measures against European exporters), and

b) challenges regarding the need to include in CBAM also indirect emissions, i.e. those generated in the production of electricity, which is an important cost element for our sector. If the CBAM also covers the carbon content for indirect emissions in the imported product, then it must also reflect the additional indirect costs European producers face compared to other global producers, in order to ensure a level playing field on the global level.

The lack of a common, universally recognized methodology for determining the carbon footprint of imported products is a huge problem. The risk of circumventing a CBAM by partners from other world regions by introducing on the EU market products with low carbon footprint should be assessed as very high. At the same time, it does not lead to reducing CO₂ emissions at the global level in any way. Furthermore, the complexity of the supply value chain in the case of copper will be a great difficulty, a CBAM would necessarily have to cover every product, from primary production right down to final products that contain copper. A simplified approach not taking the whole value chain into account may create distortions and wrong incentives.

For the energy-consuming industry, like copper mining and production, absolutely crucial is to maintain existing support tools within the EU-ETS system.

Free allocation of allowances and compensation of indirect costs, although not fully sufficient, play an integral role in reducing distortions between EU and non-EU producers. Taking this into account, we believe that it is of great importance that any future solution does not reduce or replace existing carbon leakage protection mechanisms, in particular indirect cost compensation, since indirect CO₂ costs depend on the specific pricing mechanism on the European energy market (and are not the result of a physical energy mix).

In short, due to marginal pricing in European power markets, indirect CO₂ costs are not correlated with indirect CO₂ emissions.

The current carbon leakage measures need an improvement, however they at least offer a minimum level of protection. Replacing them could lead to dramatic consequences for Europe's energy-intensive industry.

CBAM or its alternatives should first be well considered and, if it were to be implemented, exclusively in selected sectors. Only at the next stage, after a thorough analysis of its functioning during the test period, a wider approach can be considered.

Achieving a climate neutral and circular economy will require a strong, competitive EU industry. The maintenance of existing measures is necessary for the copper sector in the EU to continue to contribute to the objectives of the European Green Deal on equal opportunities and to remain competitive in the global market.