

Summary

Carbon Leakage Assessment for the Potash Industry Contribution to the public consultation of the European Commission on the draft ETS state aid guidelines

9 March 2020

VKS is the German Association of the Potash and Salt Industry and represents its members at national and European level (EU transparency register no. 85717948337-22).

A detailed explanation and assessment of the carbon leakage risk in the potash sector is submitted to the European Commission in a separate extended report by VKS.

About the Potash Industry:

Potash is mainly used as a fertiliser in agriculture. Potash fertilisation leads to higher yields in agriculture and thus to less land use worldwide and less deforestation for agricultural land. Potash fertilisation significantly improves the water efficiency of plants. Thus, potash fertilisers make an important contribution to enable agriculture to better adapt to climate change and to become more resilient in dry periods and water scarcity regions.

Potash is mined in Germany at depths of 400 to 1,250 meters. The crushed crude salt is transported from the underground mine to the surface, followed by fine grinding and refining above ground. The production of potash fertilisers is energy-intensive.

The world potash market is characterised by a few large suppliers from Russia, Belarus and Canada and a current market crises due to overcapacities and low prices. The German and European potash industry is a price taker. It is not possible for European suppliers to pass on higher costs to customers because of price competition on the international market and due to the market power of non-European suppliers.

Energy situation:

Producing potash is - in general - very energy-intensive, both heat and electrical power is required for the processes. Compared to non-European competitors, mainly located in Russia, Belarus and Canada, the European producers are facing the highest energy and CO2 emission costs directly affecting the global competitiveness. That being said the industry is committed to a climate-friendly potash

production for quite some time. As a result of significant investments to improve energy generation and energy efficiency, the German potash industry has the most climate-friendly potash production worldwide by using combined heat and power technology, which is currently the best available technology. In addition, there are ambitious goals for further reducing the CO2 footprint by 2030 and research and investigation on how technologically and economically a climate-neutral potash production can be achieved by 2050.

Indirect Cost Compensation:

Germany has granted state aid for indirect emission costs (electricity price compensation) to more than 300 companies in approximately 15 industrial sectors. However, the European Commission's proposal published on 14 January 2020 for the revision of the EU ETS state aid guidelines reduces the list of sectors eligible for indirect cost compensation significantly which would implicate that the German potash industry could not longer receive electricity price compensation from 2021 onwards.

The potash industry is a subsector of the fertiliser industry NACE 20.15 (above ground processing of crude potash salt) as well as the mining industry NACE 08.91 (underground extraction of crude potash salt); both NACE sectors has been eligible for indirect cost compensation. According to the European Commission's proposal, both NACE sectors would fall off the sectors list, because they do not meet certain quantitative thresholds proposed by the Commission. A separate assessment of the potash industry (at prodcom level) has not yet been undertaken by the Commission.

For the potash industry indirect cost compensation has proved its worth in the past and is also urgently needed after 2020. The international competition as well as energy and emission cost situation in the potash industry has intensified once again since the first-time granting of electricity price compensation. So there is no reason to reduce this aid. Facing rising CO2 prices, future decarbonisation and further electrification indirect cost compensation will become much more important for the potash sector after 2020 and should be significantly expanded.

There is no distortion of competition between European potash producers due to indirect cost compensation.

Recommendation:

To avoid further carbon leakage and a loss of competitiveness the potash industry urgently recommends that the European Commission includes the potash industry in the revised list of sectors eligible for indirect cost compensation

- by taking into account the potash related Prodcom codes 08.91.19.00, 20.15.51.00 and 20.15.52.00
or
- by including NACE codes 08.91 and 20.15.