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Together with German Blockchain Experts We Are Against the Potential European “De-Facto Ban” of Proof-of-Work and Bitcoin

Berlin, March 13th, 2022. In the light of the latest media coverage on current drafts of the "Markets in Crypto-Assets" (MiCA) regulation, German blockchain experts are taking a clear position on the recent proposals of the MiCA regulation which is put to vote on Monday, March 14th by ECON.

Already at the beginning of March we took position on the de-facto ban of Proof-of-Work (PoW) based crypto-assets in Europe. After the corresponding article in the draft of the MiCA regulation was replaced by Stefan Berger's proposal to include mining activities in the EU sustainable finance taxonomy, a new counter-proposal has now been submitted. Both proposals are to be put to the vote by ECON on Monday, March 14, 2022.

The new proposal put forward by parts of the European Parliament (led by the Greens, the Social Democrats and supported by the Socialists) requests that only crypto-assets which comply with minimum environmental sustainability standards can be issued, offered or admitted to trading in the European Union. Furthermore, it is requested that crypto-assets which are available already have to set up and maintain a phased rollout plan to ensure compliance with the requirements.

Such regulation would lead to a de-facto ban on the acquisition and custody of Bitcoin and other cryptocurrencies based on PoW in Europe.

German blockchain experts consider this to be fundamentally wrong and support the previously submitted proposal by Stefan Berger.

Moritz Schildt, Chairman of the Hanseatic Blockchain Institute and representative of the Hamburg regional association of the Blockchain Bundesverband says:

"The proposal is like one would prohibit banks from using powerful computers or the metal industry from using welding equipment. A technology that enables a fast, cost-effective, reliable and transparent transfer of assets worldwide must also be allowed to consume electricity in the initial phase. It cannot be the task of politics to prohibit the suppliers of certain products."



i) With the ban on custody in Europe, the support of investors in this attractive and high-growth asset class would be taken over by non-European providers.

Since the planned regulation is also intended to provide a demanding legal framework for the use of cryptocurrencies in general, the planned ban on Bitcoin would result in regulated and licensed European providers being prohibited from trading and storing the most important cryptocurrency to date, while non-regulated providers in non-European countries can offer corresponding services.

For instance, many European financial institutions are in the process of expanding their custody business and trading in crypto assets. These financial institutions work in line with the norms and values of the European Union.

ii) The new proposal would lead to a severe lack of transparency that Europe should avoid if it wants to position itself as a trustworthy and internationally recognized trading venue for crypto assets. A de-facto ban on Bitcoin services in Europe could actually not restrict the use of Bitcoin. Cryptocurrencies can not be banned by a national ban (see China). Users and providers would be forced to carry out their transactions outside Europe or otherwise circumvent the ban. This would achieve the opposite of what the MiCA Regulation aims to do.

iii) The new proposal would counteract the striving of Europe for more technological sovereignty.

In general, the consequence would be that European crypto companies would not only have a significant competitive disadvantage because they are not allowed to offer important services. The historic opportunity to offer services for crypto assets with European quality standards for transparency and compliance would thus disappear into thin air. Investments already made by many start-ups, but also SMEs and large companies that have been intensively involved with PoW-based blockchain technology in recent years, would migrate to non-European countries and take their expertise with them. A good example of such development shows the recent ban by China.

The Hanseatic Blockchain Institute together with other German blockchain experts therefore ask to not vote for the PoW-ban and offer consultation in order to determine how the sustainability of blockchain technology can be improved without jeopardizing previous efforts for regulation and sovereignty.

Finally, we expressly point out that we support the German and European efforts to achieve our climate goals and thus make the world worth living in for future generations.

In contrast to many other industries, however, the first debate on the energy consumption of PoW-based algorithms has already led to an immediate redirection. According to the Bitcoin Mining Council, the share of renewable energy in the fourth quarter of 2021 is already 58.5%. Other studies suggest that the share of renewable energy could be even higher (upt to 70%).

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