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Cerame-Unie feedback to the Roadmap on the Revision of the Emission Trading Scheme Directive

Cerame-Unie welcomes the European Commission's publication of its **Roadmap on the Revision of the Emission Trading Scheme Directive (ETS)**.

In the light of the current health and sanitary emergency and the economic crisis that will follow, it will be essential to make sure that planned and future EU policies are adapted to the new context and are designed to avoid the collapse of productive systems and social cohesion throughout the EU. The impact of COVID pandemic is unprecedented and therefore more than ever there is a need for stability of carbon costs for businesses.

The ceramic industry is aware of the 2030 climate target increase proposal by the European Commission and consequently a need for strengthening of the ETS ambition. Nevertheless, an increase to the **proposed 55% GHG is a challenge for European industry**. In our opinion, it shouldn't impact the ETS sectors, which have already been contributing to the GHG reductions significantly, comparing to other economy sectors. We also believe that a review of the ETS is pre-mature, especially that the ETS phase 4 preparations have not been completed yet and the ETS directive has just been reviewed. Indeed, the ETS Directive was reviewed in 2018 and was designed to achieve a reduction target by 2030 for the ETS sector of -43% compared to 2005, supposed to reflect the general -40% reduction target compared to 1990 levels agreed by the European Council of October 2014. It has to be reminded that the long term predictability of the revised ETS was then presented as an important counterpart to what was then already perceived as an ambitious target for 2030. The importance of predictability was reflected in the Commission's proposal of 17 July 2015 for the ETS Phase IV which stated among the reasons and objectives of the proposal that it would build "on the positive experience with the harmonised rules implemented since 2013, **by further developing predictable, robust and fair rules for free allocation of allowances to industry to address the potential risk of carbon leakage in an adequate manner**"¹.

The industry, and even more so for those sectors with a large proportion of SMEs such as ceramics, needs some stability and certainty to gain trust in the ETS system and to be able to plan long term, which is particularly needed for the investments to take place in Europe by 2030. Initiating a process to change the target for 2030 for the ETS sector only two years after the ETS Directive for phase IV was approved would clearly undermine the visibility needed for the investments required to achieve the current -43% reduction for ETS sectors. On the other hand, it has to be ensured that the non-ETS sectors, which are contributing through the Effort Sharing Decision, do their adequate share and that the burden is not unequally taken by the ETS-sectors again.

Industry already very worried about the reduced allocations in 2021 as a result of significantly reduced benchmarks based on biomass. In the current context, increases in carbon costs in 2021 should be prevented by all means.

¹ Proposal for a Directive amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, COM(2015) 337 final, (2)p.2

A review of the ETS to align it to the 2030 targets needs to secure that the carbon leakage protection is fully guaranteed and that the level of free allocation is not further reduced for energy intensive industries. In the current context of the recovery from the current sanitary crisis, the industry is already extremely worried about the impact that the implementation of the ETS Phase IV will have in 2021, with most performance benchmarks for free allocations expected to be reduced by 24%. On the contrary, everything should be done to prevent a higher burden in terms of carbon costs for the industry in 2021.

Should the EU legislator decide to engage into a review of the modalities and level of carbon leakage protection, it will need to make sure that the right assessment criteria and methods (for instance: qualitative and Prodcum assessments) stay available to assess the risk of carbon leakage. More particularly, the indicator used to assess profitability in the quantitative carbon leakage assessments, the **Gross Value Added (GVA)** needs to be challenged. The GVA, by including the labor costs, does not reflect the real profitability of companies, particularly for labor-intensive sectors or sectors with large number of SMEs, such as ceramics. A Gross Operating Surplus (GOS), not including labor costs, would be much more suitable. The use of GVA as a key indicator to assess the CO2 intensity discriminates against more labour intensive sectors. Indeed, the use of this indicator implies that CO2 costs can be absorbed by sectors with little profits but large workforce, supposedly by cutting on jobs in this sector. Such perverse effect was prevented so far in relation to the list of sectors exposed to “direct” carbon leakage thanks to extensive qualitative assessments made on several sectors. On the other hand, in the absence of similar qualitative assessments, the use of GVA led to the unjustified exclusion of the ceramic tiles sector from the list of sectors eligible to indirect compensation under the review of the ETS State Aid Guidelines adopted on 21 September 2020.

The competitiveness of ceramic industry in terms of carbon costs is dependent on the whole EU policy framework but particularly on the ETS system. The EU regulatory framework has a growing impact on the EU manufacturers, as investigated by the EC Cumulative Costs Assessment on EU ceramics and glass for the period 2006 - 2015.

Cerame-Unie believes that companies need a **stable policy environment** to be able to make long-term investment decisions in the EU and by that manage the necessary technology transformation. The path to decarbonisation for ceramics was outlined in the 2012 Ceramic Roadmap to 2050 which is currently being updated in the context of recent technological and energy related developments and taking into account the objective of EU carbon neutrality in 2050.

While free allocations based on representative performance based benchmarks are perceived as a positive factor of stability and predictability required for these investments, the ceramic sector does not consider the option of Carbon Border Adjustments (CBAs) as an equivalent alternative. Indeed, considering the heterogeneous nature of ceramic products (most of which are not covered by product benchmarks) and the importance of extra-EU exports for this sector, CBAs are very unlikely to provide any efficient carbon leakage protection for the ceramic sector.

ABOUT CERAME-UNIE

Cerame-Unie, the European Ceramic Industry Association, is an umbrella organisation representing the European ceramic industry structured in nine ceramic subsectors and present in 30 European countries, including 26 EU Member States. The ceramic industry encompasses about 2,000 companies in the EU, comprising a large proportion of SMEs (80%) as well as international groups. In total the sector represents ca. 200,000 direct jobs across Europe and an annual production value of around € 30 billion.