Cerame-Unie The European Ceramic Industry Association

Brussels, 08.09.2015

Dear Sir or Madam,

Thank you very much for giving us the possibility of providing feedback with regards to the legislative proposal for the EU ETS directive revision, which was published by the European Commission on July 15th 2015.

The review of the EU ETS directive is a crucial concern for our industry, as ETS covers more than 1,200 ceramic installations, representing around 10% of the total number of installations but less than 1% of the total emissions. Ceramic installations under ETS are from the sectors of bricks and roof tiles, wall and floor tiles, refractories, sanitaryware and pipes.

Looking at the future and the context of more stringent 2030 climate targets with a steeper emission reduction path, the Market Stability Reserve in place and foreseeable higher carbon and energy costs, we recognise a strong necessity for the application of measures, which will prevent an increase in the risk of carbon, job and investment leakage. Although our industry was heavily affected by the economic crisis, the carbon leakage protection so far has contributed positively to the decision of companies to maintain investments in the EU even in this difficult economic context. For these reasons the carbon leakage protection must be kept proportionate to adopted level of climate ambition.

Our major immediate concerns regarding the recently presented proposal are the following:

1. Energy-intensive industries like ceramics should remain on the carbon leakage list as long as necessary. There should be no differentiation introduced between various sectors exposed to the risk of carbon leakage. The inclusion in the group of sectors and sub-sectors at risk of carbon leakage must be possible also on the basis of a qualitative assessment, regardless their quantitative assessment outcome (the 0,18 threshold should be removed). The possibility of annual reintegration on the carbon leakage list shall be maintained.

2. Free allocation should be based on most recent and representative production levels to reflect the real industry performance. Clarity of the baseline period applied shall be ensured.

3. Fall-back benchmarks shall be maintained for sectors with a large range of products, SMEs and small emitters.

Ad 1. We welcome the proposal of the European Commission regarding the carbon leakage protection measures and a two-tiered approach instead of the differentiation between the various

carbon leakage groups depending on their risk exposure. We are also pleased that the option of the qualitative assessment to carbon leakage risk was kept in the proposal's text.

We are concerned however about the introduction of the quantitative threshold of 0,18 for the possibility to apply the qualitative assessment option. It is of particular concern for the sector of bricks, roof tiles and clay pipes, which have been included on the current carbon leakage list on the basis of qualitative assessment. The qualitative assessment better reflects the characteristics of this sector, which is the second most energy intensive manufacturing sector in Europe and is mainly driven by SMEs. Consequently, it is also highly labour-intensive, as average labour cost can represent up to 70% of its GVA (gross value added). The methodology currently applied to calculate the emission intensity puts this sector at a disadvantage due to the inclusion of the labour costs in the GVA indicator. A more representative indication of the impact of carbon costs on the profitability of a sector could be obtained by replacing GVA with GOS (gross operating surplus, which does not include labour costs), in the emission intensity assessment.

The qualitative assessment allows a more comprehensive analysis of the carbon leakage risk exposure, as it can take into account more relevant elements, such as technological limits of the sector, its ability to pass through carbon costs or profit margins. It is also the only way to assess forward looking trade and investment trends for labour intensive sectors.

The proposal, in its current shape, decreases investment predictability in the clay bricks, roof tiles and pipes sector, as its estimated coefficient is on the borderline of the proposed threshold (0,17)**.** Moreover, its competitiveness risks to be hampered due to unequal level playing field on the EU market. Bricks and roof tiles would remain one of the very few sectors of masonry and pitched roof materials to carry the EU ETS costs and be deprived from any carbon leakage protection, what consequently may not only deter investment in this sector in the EU but make it uncompetitive.

The quantitative threshold of 0,18 as eligibility for qualitative assessment is unnecessary as it introduces legal and economic uncertainty and should be removed. The inclusion in the group of sectors at risk of carbon leakage must be possible on the basis of a qualitative assessment regardless the quantitative assessment outcome.

Furthermore, the ability to annually add sectors onto the **carbon leakage list should also be maintained in the directive to reflect changing market characteristics for borderline sectors.**

Ad 2. We believe that the free allocation should be based on most recent and representative production levels and therefore we welcome the EC proposal to move into that direction by allowing use of 5-yearly production data. Particularly, we note the Commission's proposal allows installations to obtain additional free allocation for increases in production without adding new capacity. In order to deliver genuine benefits to industry, **a lower minimum threshold than the current 50% should be considered.** With regard to free allocation and production levels, administrative complexity and confidentiality must also be taken into account.

Moreover, we would welcome further clarity on the base year periods which will be used for determining production levels.

Ad 3. With regards to the benchmark updates we are surprised that the Commission's proposal does not mention allocation based on so-called **fall-back approaches** for processes not covered by a product benchmark: based on the heat benchmark, the fuel benchmark or process emissions. Due to heterogeneity of ceramic products, the fall-back benchmark was applied to many ceramics in the past (for example: clay blocks, wall & floor tiles, refractory, sanitaryware, clay pipes, etc). Such approach is particularly adapted to sectors with a large number of SMEs, small emitters and a wide range of products. **Therefore we believe it is necessary that the option of allocations based on fall-back approach is maintained for the 4th trading period. An inappropriate treatment will dramatically raise the risk of carbon leakage.**

We hope that the commenced review of the ETS directive will contribute to enhancing cost-effective emission reductions while preserving competitiveness and growth of the European industry.

Thank you very much for taking our comments into account.

Yours faithfully,

Renaud Batier

Cerame-Unie Director General

The European ceramic industry covers a wide range of products including abrasives, bricks & roof tiles, clay pipes, wall & floor tiles, refractories, sanitaryware, table- & ornamentalware, technical ceramics and porcelain enamel. The industry generates over 200,000 direct jobs and a production value of €27 billion within the EU.

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