

ETS State Aid Guidelines

How to efficiently support decarbonisation in energy intensive industries in 2020-2030?

**Cerame-
unie** The European Ceramic
Industry Association

Renaud Batier

ERCST

16/01/2020

About the EU ceramic industry

 **80%** SMEs
Local jobs

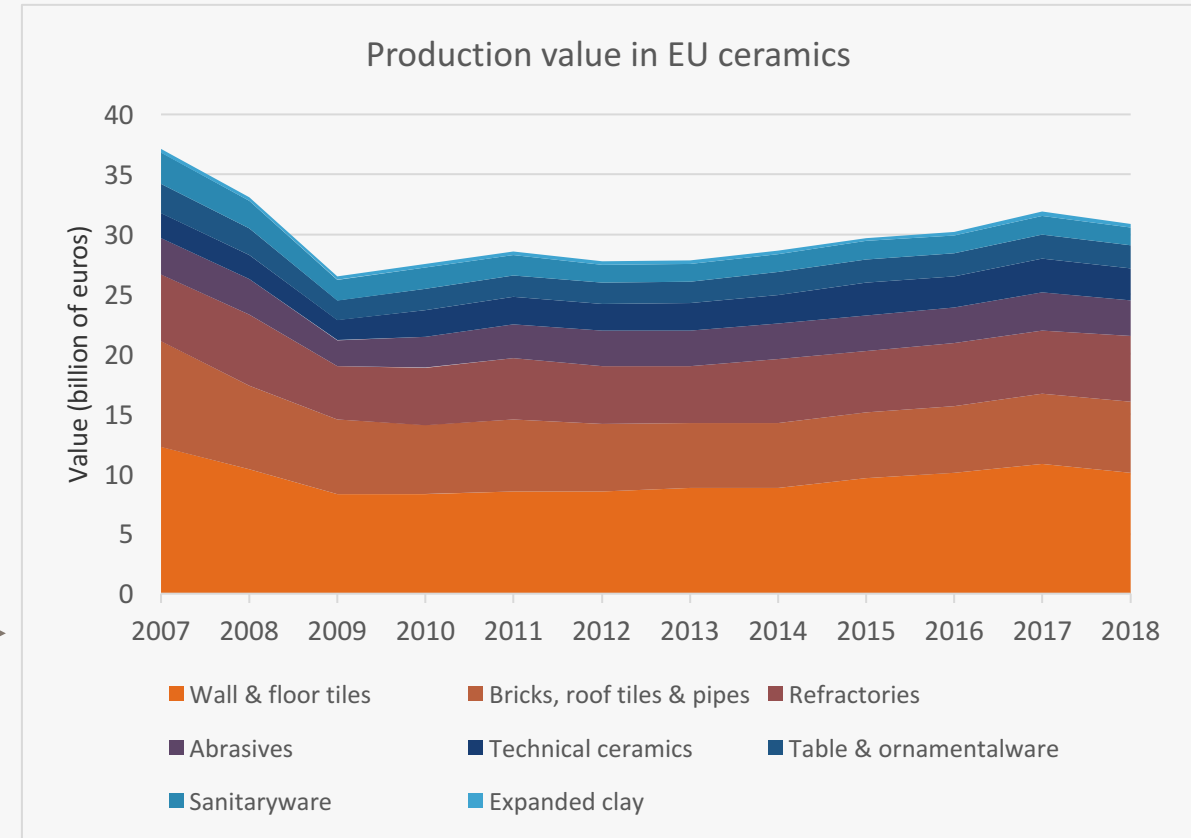
 **200,000** Direct jobs
Source of employment

 **150 years** Average lifespan of a brick house
Durable products

 **up to 30%** Production costs related to energy
Sensitive to energy prices

 **€31bn** Production value
Motor for growth

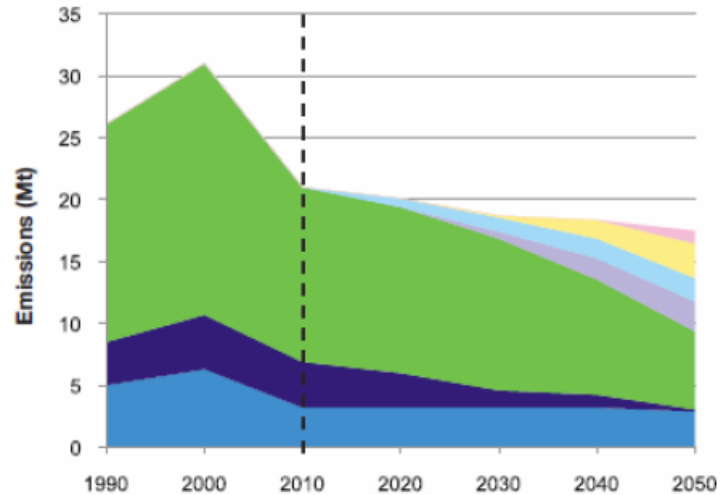
 **€4.6bn** Positive trade balance
Export champion



Ceramic Industry low carbon roadmap 2050 (2012)

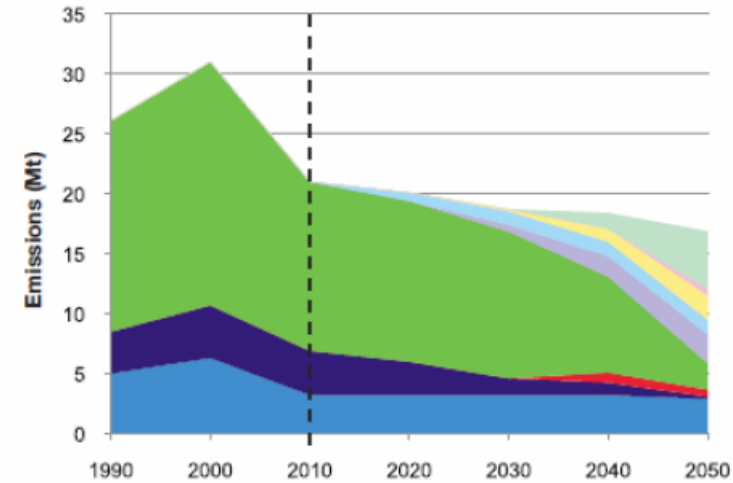
A) Excluding kiln electrification

A



B) Including kiln electrification

B



Sources of CO₂ Emissions:

- Fuel
- Extra electricity from kiln electrification
- Electricity
- Process



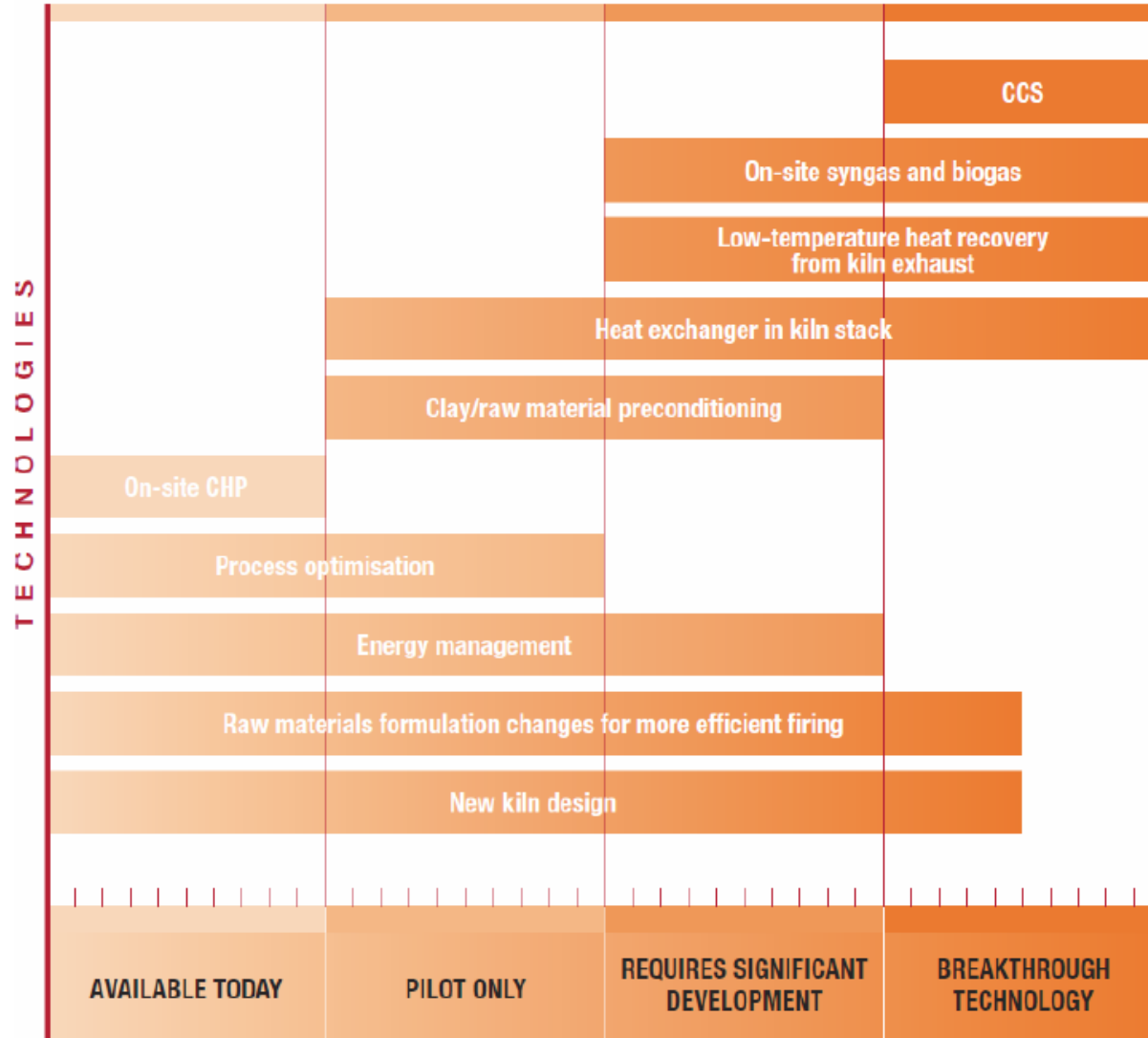
Sources of CO₂ Emissions Reductions:

- Kiln electrification
- CCS
- Other identified breakthrough technologies
- Available technologies
- Breakthrough technology syngas/biogas

- € 90 billion capital
- € 40 billion write off and lost production
- Unprofitable running costs

Solution for “process emissions” from clay not available yet

Key technologies assessed in CU Roadmap to 2050



Decarbonisation will come from a combination of technologies, innovations, energy sources.



Numerous projects launched under Horizon 2020 (e.g. ETEKINA (ceramic tiles, steel and aluminium), DryFiciency (Bricks, starch, food industries), etc.



Ambition for breakthrough under Horizon Europe and ETS Innovation Fund

How can the ETS State Aid Guidelines promote decarbonisation under ETS Phase IV?

- ▶ Electrification will be one of the contributors to decarbonisation but will require significant research & innovation:
- ▶ In order to support the objectives of the European Green Deal, the ETS State Aid Guidelines should:
 - ▶ **prevent carbon leakage** and relocation of industries which would frustrate the EU's efforts to reduce global carbon emissions
 - ▶ and **encourage manufacturing sectors to implement such investments under the ETS Phase IV**; electrification will require significant process changes in some industries such as ceramics. **In the absence of indirect compensation, electricity costs will further increase, thereby deterring investments.**
- ▶ If this justification is true for one energy intensive industry, it should be true for all energy intensive industries exposed to carbon leakage.

- ▶ *10.a.6: Member States should adopt financial measures in accordance with the second and fourth subparagraphs in favour of sectors or subsectors which are exposed to a genuine risk of carbon leakage due to significant indirect costs that are actually incurred from greenhouse gas emission costs passed on in electricity prices, provided that such financial measures are in accordance with State aid rules, and in particular do not cause undue distortions of competition in the internal market.*



Nowhere is it mentioned in the ETS Directive that compensation should only be granted to the sectors at NACE4 level the most exposed to “indirect” carbon leakage

Criteria for carbon leakage assessment under the ETS Directive

▶ Article 10.b:

- ▶ Sectors with the product of trade exposure x CO2 intensity/GVA $> 0,2$ ***“shall be deemed to be at risk of carbon leakage”***
- ▶ Sectors with the product of trade exposure x CO2 intensity/GVA $< 0,2$ but $>$ to **0,15** may be considered as exposed to carbon leakage as a result of a **qualitative assessment**.
- ▶ **No mention of any additional indicator of direct carbon intensity $>$ to 1Kg/€GVA! (as currently introduced in the draft State Aid Guidelines)**
- ▶ Sectors above 0,15 shall be assessed qualitatively under the following criteria (a) abatement potential (b) current and projected market characteristics, (c) profit margins as a potential indicator of long-run investment or relocation decisions.

Characteristics of the ceramic tiles sector (NACE 2331)

- ▶ **Trade exposure of 41,1%** and indicators implying growing future exposure
- ▶ **Trade exposure x direct carbon intensity > 0,2**
- ▶ **Prevalence of SMEs** (97% of companies have less than 250 employees, 78% are small businesses with less than 50 employees)
- ▶ **High product substitutability**
- ▶ **Profit margin lower** than other sectors exposed to carbon leakage;
- ▶ **57.000 direct employees** in ceramic tiles in the EU
- ▶ **Gross Value Added** is misleading a profitability indicators because it includes labour costs => indicator favouring concentrated sectors
- ▶ Emissions from electricity represent **29% of total CO2 emissions**
- ▶ **Higher electricity prices** due to low level of concentration

Concluding remarks:

- ▶ Compensation for indirect costs **should not be restricted to the sectors the most exposed to carbon leakage**, in line with the ETS Directive
- ▶ The **methodology for indirect quantitative carbon leakage assessment should reflect the threshold of 0,2 defined in the ETS Directive**, without adding additional quantitative indicators
- ▶ **Qualitative assessments shall be performed for sectors above the threshold of 0,15, as foreseen in the ETS Directive**
- ▶ **Qualitative assessments are essential to prevent distortion of competition**
- ▶ **The implementation and outcome of these qualitative assessments should be fully transparent** (will the sector fact sheets mentioned in the report published with the consultation be published?). The documentation published for the consultation does not give any idea of how each sector has performed under each qualitative indicator.

Thank you for
attention!