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How to make EU ETS work for small emitters?

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European ceramic industry – key facts

30 Member countries
Pan-European perspective

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

€28bn Production value
Motor for growth

€4.4bn Positive trade balance
Export champion

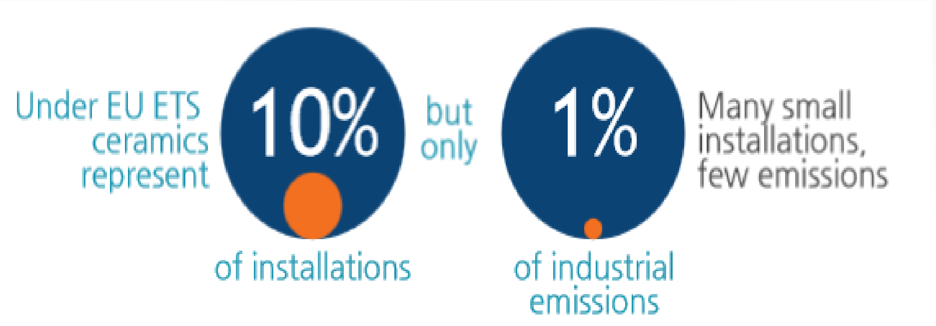
European ceramic industry in EU ETS

- **1,200** ceramic installations in **25** Member States in EU ETS in phase 3 (10% of all installations in ETS) emit in total ca. **1%** of all industrial emission per year!

- Around **80%** of ceramic installations emit <25 k tons CO_2e/year

- Around **95%** of ceramic installations emit <50 k tons CO_2e/year

- Currently all ceramic sectors are deemed exposed to the carbon leakage risk



Small ceramic emitters in EU ETS

- Currently ceramic installations in national opt out schemes (in accordance with the EU ETS Directive Art. 27):
  - ✓180 brick installations in UK, Spain, Italy, Slovenia (1) and Croatia (1)
  - ✓35 wall and floor tile installations in Spain and Italy

❑ **Only in 5 Member States there is an active use of equivalent measures!**

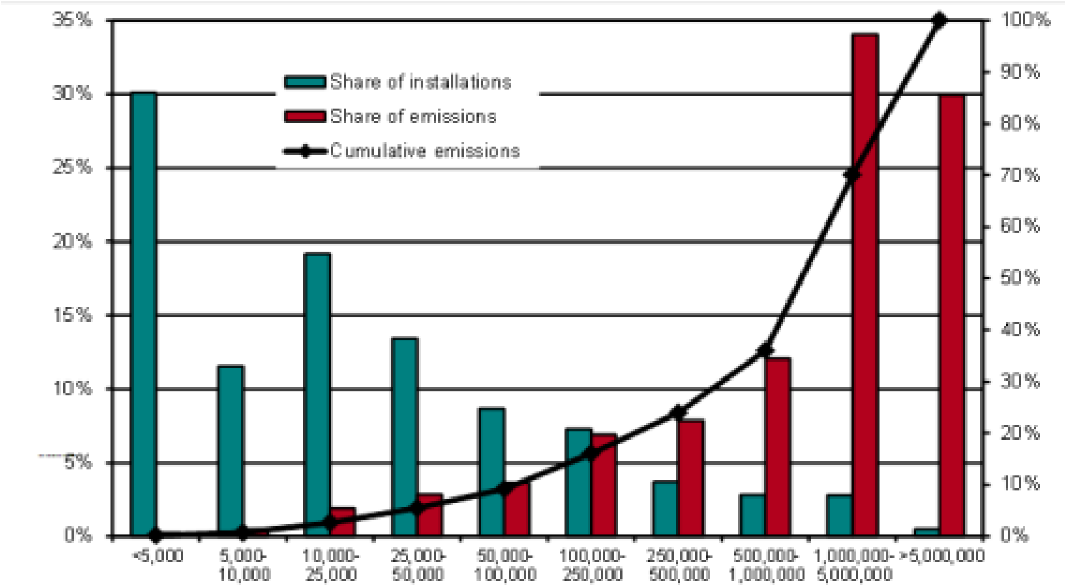
❑ Exclusion possible only, if there are national measures in place to achieve equivalent contribution to emission reductions;

❑ Opting out of the ETS is voluntary for small emitter installations;

Advantages for small emitter in "opt out"	Disadvantages for small emitter in "opt out"
Less administrative burden for companies No costs of EUTL account/registry fees Simplified monitoring, reporting, verification Avoided high penalties for non-compliance (over 100 EUR/t CO_2e)	No possibility of allowance trading (small emitter is not always SME! May wish to stay "in")

Administrative burden for many operators could be reduced without undermining environmental effectiveness & climate objectives!

Small emitters simplifications - a prerequisite



72% of all ETS installations emit less than 50 000 tons CO_2e/year and in total it covers less than **5%** of all emissions (in 2014).

Distribution of installations in terms of amount of emissions.
Source: EC Impact Assessment of the proposal for the EU ETS directive review; p. 135.

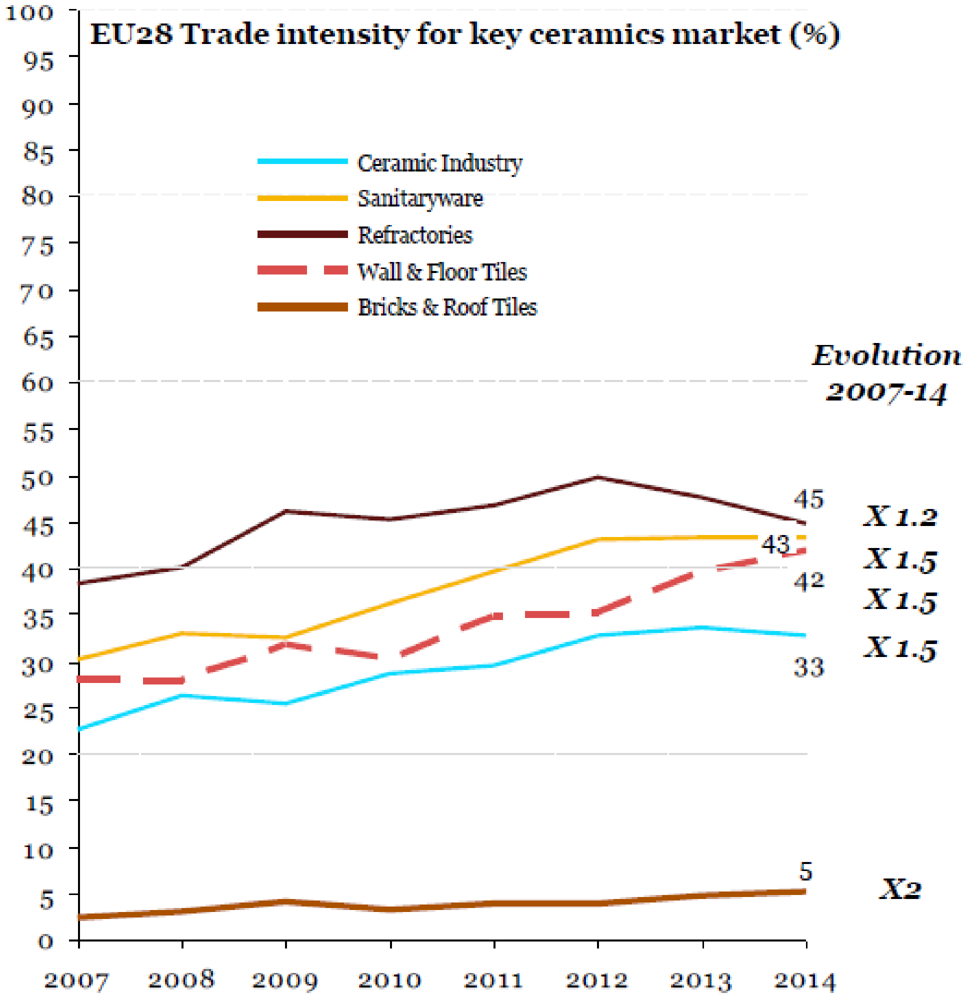
- Extension of small emitter schemes **(from 25 to 50 k tons CO_2e/year):**
  - does not hamper the overall emission reduction target of the ETS
  - allows significant reduction of the admin burdens for SMEs
  - enables general simplification of the scheme
- It shall be ensured that all Member States make the national equivalent measures available for small emitters!

Small emitters, few emissions…high energy intensity

- Clay construction products: bricks, roof tiles, clay pipes and wall and floor tiles are the **2nd most energy-intensive** sector
- On average **30 %** of production costs related to energy costs
- Fuel: **80%** natural gas
- Kilns operate at ca. 800°-1000°C
- High EU energy prices in comparison to competing countries

Comparison of natural gas prices of two EU-based tile plants and one of comparable capacity in US (EUR/MWh), Source: European Commission Energy prices and costs report (SWD(2014) 20 final/2)

Ceramic sectors' exposure to carbon leakage



Source: SBS, Comext Eurostat data, PwC Analysis

- Ceramic industry is highly exposed to global trade
- Trade intensity of ceramic sectors has increased by 1,5 on average in the last few years (to av. 33% in 2014)
  - ✓ This durable internationalization trend is contributing to increased carbon leakage exposure of ceramic sectors
- Trends must be taken into account, in particular for the „borderline" sectors in CL qualitative assessment
  - ✓ Bricks & roof tiles sectors' trade intensity has doubled since 2007 (from 2,5% in 2007 to 5% in 2014)!

Ceramic sectors' exposure to carbon leakage

Investment leakage on the EU borders in bricks & roof tiles sector

86 ceramic plants have been decommissioned in 2014 only for bricks & roof tiles….

- >30 closures
- 4 to 29 closures
- Less than 4 closures

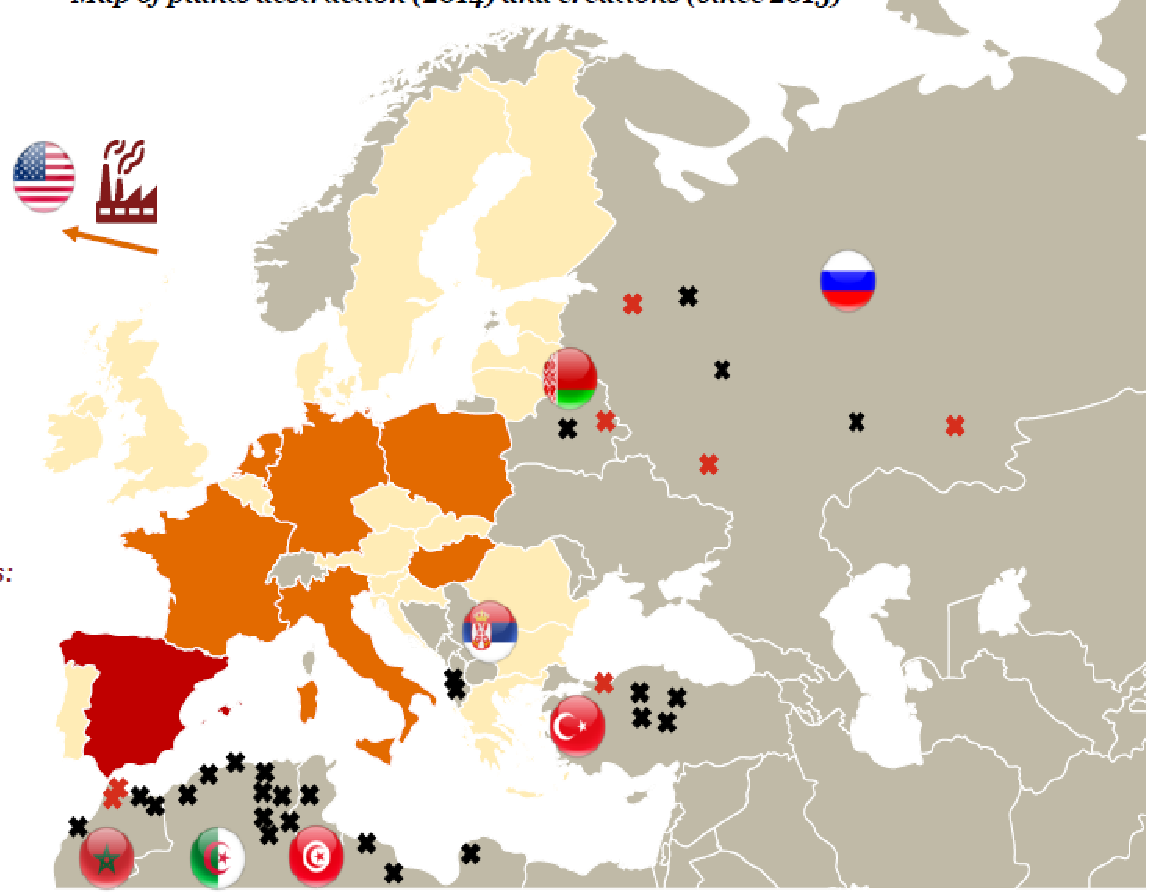
…while 30+ capacities are set up and updated(*) in neighboring non EU countries for bricks & roof tiles:

- New plants since 2013
- Updated plants since 2013

(non exhaustive)

Mainly in five countries: Maghreb (Morocco, Algeria, Tunisia), Russia and Belarus

Map of plants destruction (2014) and creations (since 2013)



Source: EUTL Database, Press, PwC Analysis

(*)Plants for which only a part of the facility has been upgraded: kiln, cutting storing or glazing robots etc…

Challenges to asses CL exposure for ceramics

- **Emission intensity calculations based on the GVA:**
  - Underestimate labour-intensive sectors *(GVA includes labour costs),*
  - Underestimate SME-driven sectors,
  - Underestimate sectors composed of manufacturing plants with diverse activities and heterogeneous products (many companies counted in the GVA – more than 4.000 companies in ceramic sectors covered by ETS - but few of them in scope of ETS – 1.200 installations);

- **Qualitative carbon leakage assessment is necessary with no threshold:**
  - quantitative assessment does not reflect the specific characteristics of some sectors and is only backward-looking, not including either investment or trade trends (for example for: **bricks, roof tiles and clay pipes sector**);
- Carbon leakage assessment needed at «appropriate level of disaggregation»
  - Expanded clay sector deemed at carbon leakage risk with PRODCOM assessment!

How to make EU ETS work for ceramics?

1. **Maintain level playing field for all energy- & labour-intensive sectors:**
   - No differentiation between the sectors on the carbon leakage list (**tiered approach to free allocation – potential market distortion and penalization of "early movers"!**)

2. **Carbon leakage assessment accommodating heterogeneous sectors:**
   - Qualitative assessment without quantitative threshold
   - Assessments at a relevant disaggregation level (also 6- & 8-digit)

3. Small emitters simplification - a prerequisite!

- Opt-out possibility extended to installations with annual emissions up to **50,000 tCO_2e** (instead of 25,000 tCO_2e)
- All Member States shall implement national equivalent measures for small emitters!

Thank you for your attention!

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