Public consultation in preparation of an analytical report on the impact of the international climate negotiations on the situation of energy intensive sectors

<u>Question 1:</u> *In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?*

Cerame-Unie reply: *key indicators of the risk of carbon leakage have deteriorated since the adoption of the climate change and energy package.* The list of carbon leakage sectors was based on criteria (trade exposure, carbon intensity on GVA) which are considered as representative of the structural exposure of an industrial sector to the risk of carbon leakage. The final objective of the exercise was to estimate the situation which the European energy-intensive industry would face as of 2013. The methodology adopted by the European Commission was based on historic data for trade exposure and CO_2 emissions and assumptions on future carbon prices. The financial and economic crisis has resulted in a significant loss in competitiveness of EU products to the benefit of imported products and hence, in an even higher trade exposure. Similarly, the GVA has decreased dramatically, resulting in a deterioration of the CO_2 /GVA ratio. Moreover, criteria of the qualitative assessment, including profit margins and other indicators of profitability like EBITDA and current and projected market characteristics, have deteriorated particularly in the sector of bricks and roof tiles, where in addition the economic feasibility of imports from third countries to EU borders indicates the risk of increasing trends in the near future. Carbon prices are not *per se* an indicator of the risk of carbon leakage, as they simply constitute the assumption for the methodology used for the carbon leakage assessment. Current carbon prices are not considered as representative by market experts working on estimates for the third trading period and therefore should be disregarded. Such an adjustment would not be consistent with the rationale of the ETS, which is a market based instrument where the total cap is the driving force, whereas the market price of carbon is only a consequence of it.

As general remark, Cerame-Unie is of the opinion that this question is outside the scope of the consultation foreseen by Art. 10b, which requires a report assessing "the situation of energy-intensive sectors and sub-sectors which have been determined to be exposed to significant risks of carbon leakage *in the light of the outcome of the international negotiations and the extent to which these lead global greenhouse gases reduction*." The assessment of the key indicators of the risk of carbon leakage, which is the main subject of this question, is not in line with the legal text of the revised ETS Directive.

<u>Question 2:</u> *Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?*

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Cerame-Unie reply: *the outcome of Copenhagen is not a sufficient step to foresee additional GHG emission reductions by relevant competitors of European energy-intensive industry*. In its communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions dated 9 March 2010, the European Commission declared that "the [Copenhagen] Accord falls well short of the EU's ambition for Copenhagen to reach a robust and effective legally binding agreement." In the absence of such an agreement ensuring the global playing field, the risk of carbon leakage for the European energy-intensive is strengthened by the increase of costs related to the unilateral decision of the EU to cut emissions. In the light of the outcome of Copenhagen, and as requested under recital n°16 of Decision 2010/2, Cerame-Unie calls on the European Commission to reassess as soon as possible the risk of carbon leakage of those sectors which are not currently in the list because of the limited data quality and availability at the time of the first assessment. These sectors, like the manufacture of bricks and roof tiles or vitrified clay pipes, need a transparent and predictable legal framework in order to make informed long-term investment decisions.

<u>**Question 3:**</u> *In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?*

Cerame-Unie reply: The risk of carbon leakage is related to the unilateral commitment of the EU to emissions reduction. In order to ensure a global level playing field, non EU industries competing with European energy intensive industries should face equivalent CO2 constraints. This would occur in presence of a legally binding commitment to equivalent emissions reduction implemented at national level with a cap and trade system entailing comparable carbon prices. Taking ceramic tiles as an example, this would mean that ceramic tiles manufacturers based *inter alia* in China, Turkey, United Arab Emirates, Egypt, Morocco, Brazil, Ukraine, India, Indonesia and Thailand would be subject to an equivalent burden as EU ceramic tiles manufacturers, leading to comparable GHG emissions reductions and costs.

<u>**Question 4:**</u> *Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?*

Cerame-Unie reply: Free allocation of allowances prevents carbon leakage only if its starting point, i.e. the benchmark, is set at a technically achievable *level* and using a consistent approach across all Member States. Therefore, the elements determining the total free allocation of allowances (benchmarks and share of free allowances) should be fixed in a way which is consistent with this condition. However, free allocation addresses only the issue of direct costs related to CO_2 allowances. Compensation for indirect electricity costs should also be granted to those sectors deemed to be exposed at significant risk of carbon leakage. Finally, the option of including importers in the Community scheme should also be analysed, as foreseen by Art. 10b. The potential impact and feasibility of such complementary measure should be assessed.

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