

Cerame-Unie Input to the Commission IIA on the Review of the State aid on Environmental Protection and Energy Guidelines (EEAG)

*With the present reply, Cerame-Unie provides the European Commission its input to the ongoing consultations for the Inception Impact Assessment (IIA) concerning the review of the Environmental Protection and Energy State Aid Guidelines (EEAG, 2014/C 200/01). Announced **by EVP Commissioner Vestager on 22 September 2020**, followed by a Call for Contributions and published by DG COMP on 11 November 2020, Cerame-Unie welcomes the overall strategic objective of the reform to align the current State aid rulebook to strengthen competition rules contributions to the achievement of the green transition for a carbon-neutral economy by 2050.*

As an industry association representing highly-innovative industrial SMEs which already contribute directly and indirectly to the targets of the circular economy, renovation wave, and energy efficiency of buildings along with our traditional role of supplier of inputs to key industrial sectors, our response will focus on the Commission sub-objective 2, i.e. assessment of State Aid levels to Energy-Intensive Users (EIUs) as the ceramic sector is currently listed under Annex III to Section 3.7.2., hence eligible for from State aid in the form of reductions in the funding of support for energy from Renewable Energy costs (RE).

Cerame-Unie represents the European Ceramic industry world leader manufacturer of high-quality ceramic goods produced by labour-intensive and innovative industrial SMEs employing more than 200.000 between direct and indirect jobs, and constituting by SMEs up to 80%. As energy-intensive industry strongly committed toward carbon neutrality for 2050 in line with the strategic 2012 Ceramic Roadmap, the EU ceramic sector falls under the cap-and-trade system with more than 1.200 installations, counting for 10% of all EU ETS installations and 1% of the total EU's industrial emissions of greenhouse gasses (GHG), located in several EU Member States as Italy, Germany, Spain, France, Portugal and Austria with a total turnover of 30bn euros worth in annual production.

Introduction

In our 2012 Ceramic Roadmap, we set our path toward climate neutrality 2050, collecting efforts and momentum across several Member States of the Union: A path consisting of large-scale investments for the full decarbonisation of the production processes through plant-related (e.g. led lightening, Renewable Energy production, high-efficiency cogeneration) and process-related measures (e.g. electric kiln, heat recovery dryer, high efficiency air compressor) all in all boosting our progress toward decarbonisation to the best extent possible according the technological level currently available; our path moves also along “already made” solutions for GHG emission reduction in the consumption market and other in EU sectors through *inter alia* the provision of products with the capacity to boosting energy-efficiency in buildings (e.g. innovative roof tiles able to passively remove heat and reduce energy consumption of buildings), increased circular properties and very long lifespan (e.g. ceramic building materials have a lifespan of about 150 years), and human health

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protection (e.g. technical ceramics are biocompatible with the human body and are used as surgical micro-component for defibrillators and heart pacemakers and generally live-savers against infections as COVID-19).

Hence, as the nature of our economic activity and the characteristics of our products allow us to provide goods, both in the EU Single Market and in export markets with lower-climate ambitions, at a high-added-value for the achievement of Union-wide total GHG emission reduction targets, **we wish to welcome the European Commission proposal to enlarge the scope of the Guidelines to reflect the objectives of the New Green Deal**, as it opens our path for much-needed support in developing and scaling-up breakthrough technologies in industry sectors with a high potential to contribute to climate action while coupling the efforts in achieving climate targets.

Precisely, our substantial contributions to the New Green Deal core objectives are well reflected in the supply of consumer goods with low-carbon footprint, high durability, repairability, and reusability, hence with elevated life-cycle contribution to GHG reductions and especially by providing energy-efficiency production inputs to several key EU value chains including but not limited to the renovation and building sectors (e.g. via EU-manufactured bricks with natural thermal insulation capacity in-wall and building systems) and steel-making industry (e.g. through refractories, as the most talented heat resilient for elevated-temperature operations). **The recent inclusion of the ceramic sector in the first EU-harmonised classification system for sustainable economic activities** (i.e. the draft delegated act for climate change mitigation and adaptation of the Taxonomy Regulation [Regulation (EU) 2020/852]) corroborates our role in achieving the New Green Deal objectives: **the European ceramic industry is indeed defined as “enabling activity”** under the “Manufacturing” sector, specifically as **a) supplier of energy-efficient equipment for buildings** and **b) other low-carbon technologies** (i.e. as briefly referred above).

However, we wish to highlight that **our sectoral contribution to climate neutrality objectives has not come free of hampering obstacles**, as the ceramic industry keeps facing **fierce competition within the EU Single Market** from high-quality substitutable products (e.g. refined linoleum, carpet), benefiting from public aid for indirect carbon costs, and **outside the EU from competitors operating from countries with lower or non-existing climate ambitious** and lower labor costs as China, India, and Saudi Arabia, both affecting our (in) ability-to pass-through the costs derived from carbon-related increases of electricity prices (i.e. ETS carbon-costs) and related. Moreover, as an energy-intensive sector with high labour costs and a vast technological gap in terms of electrification of key production stages, low carbon electricity is among our utmost priorities as well as keeping jobs while effectively decarbonising: as of today scalable low-carbon production solutions for the most energy-intensive stages of the process (e.g. firing and drying) involving *inter alia* RES are still being sought to couple energy consumption’s reduction efforts and to improve our electric intensity, despite the stable improvements obtained in terms of kW/h kWh over the last years (e.g. +6.8% from 2006).

Accordingly, **we call for an Inception Impact Assessment on the EEAG Review to consider the necessity for our sector to keep benefiting as a whole from the compensation of financing costs incurred for the use of renewable energy support (RES)** as conspicuous resources to bring our level

of technological development beyond its current peak point are needed (e.g. currently being investigated Microwaves-Assisted Gas Firing (MAGF) for heating ceramics, developed by the Danish Technological Institute) and as **several technologies are already being developed which would lead to the increase of low carbon electricity consumption in our sector**. The ceramic tiles industry is also involved in a large project under Horizon 2020 (SPIRE PPP) to develop an efficient microwave system for material transformation in energy-intensive processes (i.e. Destiny project); several ceramic companies have already been benefiting from this type of national public intervention and further efforts in ensuring stability, continuity and actionable State aid schemes at national are strongly urged and this will depend on upholding of our sector in the Annex III list of beneficiaries.

Further, **for a sector to be fully recognised as eligible for public aid according to the dedicated section 3.7.2** of the EEAG for the surcharges deriving from Renewable Energy Support, the **Guidelines** foresees a **calculating methodology expressed in the function between “electro-intensity x trade intensity”** (para.185, EEAG); while our sector widely meet the rate of international trade exposure (>40%, 13 points higher of sectors eligible for indirect carbon costs compensation in the ETS State Aid Guidelines), **it bears a greater risk for being (possibly) excluded by the revision of the list due to a calculating methodology for “electro-intensity levels” based on an unrepresentative factor as the Gross Value Added (GVA) (Annex IV, EEAG), which by definition, includes profits and labour costs**. The (negative) impact of such a factor in the **measurement of electro-intensity** of our sector under Annex IV EEAG shall be clearly and carefully evaluated in the EC Impact Assessment given that it will determine whether or not our innovative decarbonising SMEs will benefit from compensation for incurred RES costs. Indeed, **the GVA-factor** (Annex IV, para. 1 and 3) **would lead to the wrongful conclusion that a sector with low profits (compared to CO2 costs) but high labor costs** (typically industrial SMEs) **will seem to be less exposed to the risk of losing competitiveness given its ability to reducing the labor costs**; indeed we consider this statement to be non-compatible with the principle of a fair and sustainable green transition given its implication for which any sector could improve its GHG-intensity by cutting-down on jobs. **Hence, as a sector with a high share of workforce expenses among production’ costs and at high SMEs’ composition, we call for a calculating methodology based on real profitability indicators which would not allow the penalization of industrial SMEs**, hopefully aligning the incoming reform to Commission Strategy for EU SMEs which calls *inter alia* for a better consideration of SMEs prerogatives under relevant Union legislation.

Hence, any Inception Impact Assessment should consider the following recommendations:

- **Upholding the regime of support foreseen under Section 3.7.2 of the Environmental Protection and Energy Guidelines (2014/C 200/01) foreseen for the ceramic industry listed in Annex III**, as funding support for the use and development of RE technologies in our sector is still highly needed; such claim acquires even greater role in consideration of *inter alia* the elevated rate of international trade exposure vis-à-vis countries with loosened climate regulation, of our high-labour intensity and the resulting low ability to pass-through costs.

- **Applying already available qualitative assessment over quantitative-GVA based methodologies, if necessary, based on real profitability indicators which would not result in penalising labour-intensity factors and which would be mindful of the intrinsic value of a sector as heterogeneous as ours** in light of our multiple contributions to climate change and carbon-neutrality throughout several EU key value chains.
- **Avoiding any possible alignment between the eligibility of EEAG and the reviewed State Aid Guidelines**, particularly concerning the updated list of industries eligible for indirect costs compensation for the EU Emission Trading Schemes Phase IV.
- **A call for the European Commission to facilitate national State aid schemes to support the development of RES technologies and systems.**