PRESS RELEASE

Review of the ETS State Aid Guidelines: for an industry without jobs and SME's

21 September 2020, Brussels – ***The European Commission adopted today the ETS State Aid Guidelines review reducing the list of sectors eligible for compensation for indirect carbon costs and excluding the ceramic tiles sector from this list. This decision is based on a methodology assuming that carbon costs can be compensated by cutting down on jobs, more particularly in labour intensive sectors mostly composed of SMEs such as ceramic tiles.***

A Commission decision not to include ceramic tiles in the list of sectors exposed to carbon leakage due to indirect carbon costs comes at a great cost for a sector fully committed to 2050 decarbonisation targets through every existing and future technologies at our disposal. In order to deliver on climate goals, the ceramic industry will also rely on electrification and will need fiscal incentives in order to compensate for the additional costs incurred during the transition towards decarbonised electricity.

The extensive data – third party verified - provided to the Commission during the public consultation shows that ceramic tiles is **one of the sectors the most exposed to international trade**, one of the two indicators of "carbon leakage". Exposure to imports from countries with no carbon legislation has further increased over the last year and months. The data provided also shows that **carbon costs embodied in the electricity prices will rapidly absorb profits in an industry** which has no ability to pass-through additional costs, particularly in the context of the recovery from the Covid-19 crisis.

The reason why ceramic tiles are currently not included in this eligibility list is simple, it is exclusively explained by the fact that "CO_2 intensity", the second criterion to determine "carbon leakage" exposure, is calculated by <u>comparing carbon costs with</u> profits <u>and labour costs</u> (merged into one economic indicator available in Eurostat and known as Gross Value Added – GVA).

The result of such methodology is that a sector highly exposed to international trade, that has little profits (compared to carbon costs) but with high labour costs, will be considered as having a wider margin to absorb additional carbon costs. In other words, by using this methodology, the **competition regulator considers such a sector should not be eligible because <u>it can compensate these costs by cutting down on jobs</u>. This is the situation of the ceramic tiles sector, with its 80% of SMEs, 70.000 direct and local jobs for a turnover of 10 € billion.**

As stated by Cerame-Unie President Alain Delcourt, ***"such an approach cannot be in line with the Green Deal which cannot have as an objective to discriminate against labour intensive sectors and deprive SME industries from equal opportunities in the transition towards low carbon manufacturing".***

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, expanded clay and flower pots. The industry generates over 200,000 direct jobs and a production value of €31 billion in the EU.

Cerame-Unie aisbl
Rue Belliard 12 - 1000 Brussels - Tel: +32 2 808 38 80 - sec@cerameunie.eu - www.cerameunie.eu - twitter.com/CerameUnie
EU Transparency Register 79465004946-12

In this context, the European ceramic industry calls on the EU institutions to stop assessing the impact of climate legislation by comparing carbon costs with labour costs. **The Gross Value Added is simply the wrong indicator for this exercise and it has the perverse effect of penalising industries which are more labour intensive, typically SME sectors**.

Cerame-Unie is aware that the ETS Directive refers explicitly to Gross Value Added as the key indicator for carbon leakage assessment, but the same ETS Directive also foresees the possibility to correct this perverse effect by the means of "qualitative assessments", which analyse in more details the sectors concerned. As opposed to the practice that has prevailed throughout all "carbon leakage" assessments linked to direct CO_2 emissions, **the Commission has not performed such qualitative assessments in the context of the ETS State Aid Guidelines**. Instead, it has carried out through a consultant sectoral analysis that the concerned sectors were only able to see today, on the day of the adoption of the final guidelines. We are currently reviewing in detail the "sector fiche" on ceramic tiles and can already note that they are **based on outdated data leading for example to conclusions on import and profitability trends completely disconnected from today's reality or even from the market in 2019**. Moreover, **we strongly disagree with the assumption made by the consultant that a sector as highly exposed to international trade as ceramic tiles (41% exposure) will not be affected by competition with products from third countries not bearing any carbon costs because it is currently protected by anti-dumping duties on imports from China.** First of all, this conclusion is wrong economically, since anti-dumping duties are targeted at imports from specific countries (in the case of ceramic tiles, China) and the effect of such duties cannot be extrapolated to imports from other countries. Secondly, this conclusion is in contradiction with the fact that anti-dumping duties are strictly designed to tackle the dumping margin to the extent that dumping has caused injury. The EU anti-dumping duties imposed in 2011 on ceramic tiles from China are legally set at a level designed to tackle illegal dumping (in the sense of the WTO Anti-Dumping Agreement) and by no means do they take into account differences in carbon or environmental costs between EU products and imports from China.

In conclusion, Roman Blažíček, President of CET, the European Ceramic Tiles Manufacturers Federation, *"**deeply regrets that this sector, considered today as a very competitive European export champion, producing durable products contributing to circular economy, has not been properly assessed through a fair and transparent procedure**"*.