

20<sup>th</sup> July 2018

**The Commission's Delegated Regulation determining transitional Union-wide rules for harmonised free allocation of emission allowances**

- Industry Position with regards to the free allocation for specific process emissions -

**Policy request - Confirmation that:**

- the process emissions free allocations factor will be kept at 0.97
- no annual reduction factor used for product benchmarks will be applied to process emissions installations.

Cerame Unie, ECGA, Euroalliages, the European Copper Institute, Eurometaux, Euromines, EXCA, PRE and TBE would like to take this opportunity to thank the Commission not only for organising and successfully managing the Expert Group on Climate Change Policy meeting on 17th of July but also for giving us the opportunity to express our opinions, comments and suggestions.

We welcome the Commission's efforts and are fully committed to taking all the necessary measures needed to comply with the EU climate change policy by 2030. However, we strongly believe that the whole design of the EU ETS Directive and its implementing acts amongst which the Delegated Regulation determining transitional Union-wide rules for harmonised free allocation of emission allowances should focus on what is technically feasible, not lead to an unbearable increase in costs or undermine the competitiveness of the European industry or discriminate between different European industries.

In this context, the signatories would like to bring forward the following arguments supporting a process emissions allocation factor of 0.97 (each detailed below):

- A process emissions reduction without a proportional decrease in the production level is technically NOT feasible.
- Industries using the process emissions allocation factor should not be discriminated ab initio against those for which product benchmarks are used.
- A decrease in the process emissions allocation factor is unsustainable from the economic point of view.
- Decreasing the process emissions allocation factor will automatically lead to a loss of global competitiveness and level playing field for all of our industries.
- From the environmental point of view, any reduction in the multiplication factor from the current level will result in inadequate Carbon Leakage protection for industries who are using the best available technologies fulfilling the best environmental norms and will discourage circular economy.
- The proposal for decreasing the 0.97 allocation factor for process emissions sub-installations does not have a legal basis.
- The signatories are fully committed to complying with the EU energy policy and its decarbonisation strategy.

**A process emissions reduction without a proportional decrease in the production level is technically NOT feasible.**

Process emissions, inherent to the raw material used (e.g. clay in the case of bricks, roof tiles and expanded clay, magnesia for refractory magnesia bricks, etc.) are the unavoidable result of chemical reactions among the raw materials used in the production process including their thermal decomposition. These emissions, strictly correlated to the production level by a multiplication factor, the so called stoichiometric factor (deriving from the CO<sub>2</sub> content of the used raw materials - geogenic emissions) are direct and unavoidable.

For example, within the magnesite/magnesia sector, process emissions are *non-fuel related process emissions* (e.g. t CO<sub>2</sub> / t product) generated through the thermal decomposition of carbonates, mainly magnesium carbonate (>90%) - the precursor to produce magnesia (MgO) through the chemical reaction: MgCO<sub>3</sub>(s) => MgO(s) + CO<sub>2</sub>(g) during calcination. Due to the effect high thermal energy input has on the carbonate, oxide formations and the release of CO<sub>2</sub> are characteristic of the dissociation. 50% of the raw material diffuses (CO<sub>2</sub>), emissions which cannot be avoided by any technical arrangements.

For some processes the use of secondary raw materials in the same process is possible, but for others separate processes will be technically required to achieve technical and quality specifications, such as in the case mentioned above.

**Industries using the process emissions allocation factor should not be discriminated ab initio against those for which product benchmarks are used.** Sectors for which benchmarks are used take advantage of a system which rewards highly efficient installations and incentivises less efficient installations to reduce emissions. Whilst not all installations receive all allocations, at least the most efficient installations are eligible for 100% free allocation.

The sectors for which the use of a product or a fall-back benchmark is impossible (because either there are not enough installations for setting such a benchmark or because the Commission took the decision not to extend the product benchmark list during 2021-2030) are not being granted the same treatment as even the most efficient cannot receive more than 97% free allocation. Decreasing even more the 0.97 allocation factor will only deepen this discrimination compared to the best installations at benchmark level in other carbon leakage sectors.

**A decrease in the process emissions allocation factor is unsustainable from the economic point of view.**

Whilst our industries are supportive of market-based mechanisms such as the EU ETS to tackling climate change and are currently taking all the necessary measures to finding solutions, the current Commission's proposal to reduce the process emissions allocation factor from 0.97 to 0.941 is actually driving up costs and forcing our industries to decrease production. If that were the case, all plans made for achieving the climate change policy objectives will become impossible to implement and expenses will have to be redirected to covering the increase in costs incurred due to a decrease of the process emissions allocation factor. Also, higher CO<sub>2</sub> costs on process emissions would strongly disrupt business models and lead to automatic shifts to imported raw materials eventually resulting in production relocation, thereby affecting EU domestic jobs and increasing the carbon footprint for products consumed in the EU.

**Decreasing the process emissions allocation factor will automatically lead to a loss of global competitiveness and level playing field for all of our industries.**

Currently the future of the global energy policies remains unpredictable and current efforts to put a price on GHG emissions around the world remain fragmented. Both the coverage and carbon price vary significantly between jurisdictions. In such an asymmetric world, our industries competing at local, national and international levels, mainly on costs are legitimately concerned that the latest results of the EU level negotiations regarding CO<sub>2</sub> process emissions may undermine our international competitiveness, reducing market share and profit margins to competitors who do not face similar carbon costs abroad.

From an environmental protection point of view, any reduction in the multiplication factor from the current level will result in inadequate Carbon Leakage protection for industries which are using the best

available technologies fulfilling the best environmental norms and will discourage circular economy. Indeed, recycling and recovering metals from secondary metals bearing materials are essential core of circular economy, a key objective of the EU. Decreasing the carbon leakage protection by decreasing free allocation for process emissions sub-installations will discourage new investments in this sector and therefore, the circular economy package objectives such as unlocking new business but also climate friendly opportunities, building a new generation of innovative, creating a resource-efficient European businesses environment might not be achievable anymore.

**The proposal for decreasing the 0.97 allocation factor for process emissions sub-installations does not have a legal basis.** The EU ETS Directive contains provisions on such a decrease for product benchmarks only (Article 10a(2)). These provisions only make reference to product benchmarks and not to the specific case of process emissions. The difference in nature of process emissions sub-installations has already been recognised and they must not be mixed with benchmarks. Moreover, this significant change intervenes late in the process leading to the adoption of the new delegated Regulation which has not been preceded by any discussion on impact study.

In the alternative, even if the ETS Directive was to be found to provide legal basis for the application of the lower benchmark reduction value of 0,2 to process emissions, equality of treatment between benchmark and fall-back approaches would require the application of this reduction value starting at “1”, and not at 0,97, thereby resulting in the value of 0,97 currently applicable under phase III for process emissions.



The European Ceramic Industry Association



**Eurometaux**  
European Association of Metals



Cerame Unie, ECGA, Euroalliages, the European Copper Institute, Eurometaux, Euromines, EXCA, PRE and TBE are fully committed to complying with the EU energy policy and its decarbonisation strategy.

Our decarbonisation strategies include elements such as the carbon capture and storage/utilisation; replacing fuel with gas and the increase of efficiencies in energy consumption for fuel related process emissions and the carbon capture, storage and utilisation for non-fuel process emissions.

However, first estimations lead to the conclusion that capturing such high amounts of CO<sub>2</sub> can only be achieved through chemical absorption. For future use additional chemical transformations would be required needing additional raw materials and energy. So far possible uses would require additional energy input which in turn generates additional CO<sub>2</sub>.

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**Cerame Unie:** Cerame-Unie is the umbrella organisation representing the European ceramic industry structured in nice sectors. It covers a wide range of products including bricks & roof tiles (TBE), clay pipes, wall & floor tiles, refractories (PRE), sanitary ware, table & ornamental ware, technical ceramics, expanded clay and porcelain enamel. The industry generates over 200,000 direct jobs and a production value of €30 billion in the EU.

**ECGA:** The European Carbon and Graphite Association represents 100% of the EU based graphite electrode producers going into Europe's steel and foundry industry, electrodes and cathodes for the aluminium and ferroalloy industry as well as a wide variety specialty graphite going into hundreds of applications from electric motors to modern battery technology.

**Euroalliages:** Euroalliages is the European association of ferro-alloys and silicon sectors. It represents more than 95% of the industry located in the EU and the EEA and generates an annual turnover of above 2 billion euros. Euroalliages' member companies provide essential materials to the European steel, aluminium, chemicals, electronics and solar industries.

**Eurometaux:** Eurometaux is the decisive voice of non-ferrous metals producers and recyclers in Europe. With 500,000 employees and an annual turnover of €120bn, our members represent an essential industry for European society that businesses in almost every sector depend on. Together, we are leading Europe towards a more circular future through the endlessly recyclable potential of metals.

**Euromines:** The European Association of Mining Industries, Metal Ores & Industrial Minerals, represents large and small companies and subsidiaries in Europe and in other parts of the world which provide jobs to more than 350,000 people. Through the activities and operations of these members, more than 42 different metals and minerals are produced. Their sustainable exploitation can increase Europe's supply of mineral resources, help ease imports from third countries usually applying lower environmental, corporate and social standards and foster the socio-economic growth of Europe's Regions.

**EXCA:** EXCA is the European expanded clay association and represents the interests of all major expanded clay producers throughout Europe. With its 11 member companies in 12 countries operating 16 plants throughout Europe EXCA represents more than 90% of the European industry.