FEDERATION OF GREEK TEXTILE INDUSTRIALISTS

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European Commission
Directorate-General for Competition, Unit B3
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1049 Bruxelles/Brussels
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Subject: Federation of Greek Textile Industrialists position paper on draft ETS State aid Guidelines [HT 582]

Dear Sir/Madam,

The Federation of Greek Textile Industrialists was founded in 1913 and it is a historic association with over 100 years of continuous operation. It is the only body that represents the Greek textile industry in its whole since it negotiates and signs the Sectoral Collective Labor Agreement.

The Federation responds to the serious problems affecting the sector like excessive increase in energy costs, liquidity problems, lack of funding and increasing labor costs and promotes actions to support the positions of the sector.

The Greek Textile Industry is one of the major productive sectors of the country as it generates national wealth, employs more than a thousand of workers and is one of the remaining manufacturing export industries of our country.

In recent years, the Greek Textile Industry has been experiencing serious problems due to the mass import of textile products from China and other third countries. The indirect emissions cost of a highly energy-intensive industry such as the Textiles Industry accounts for a large share of the value added of the product, and it is a major competitive disadvantage for the EU undertakings.

In order to contribute to the Public consultation on draft ETS State aid Guidelines (Ref. HT582), the Federation of Greek Textile Industrialists, would like to submit its contribution, as follows:

Eligible sectors

In the draft Guidelines, NACE 13 10 - Preparation and spinning of textile fibres is removed from the list of eligible sectors. Although the sector fulfils the quantitave criterion of the indirect carbon leakage indicator (it has a value of 0.244 > 0.2) the assessment study defines its carbon leakage risk as low. We strongly believe that this was a result of both insufficient representation of the sector during the targeted consultation, and of the probably missing or not representative quantitative information used. As can be seen from the Annex 3 of the assessment study, apart from the absence of responses concerning the sector to the targeted consultation, two European associations were also contacted for information but provided no response.

Concerning the market characteristics, there is almost no link between input/production costs and output prices. This is due to the fact that while output prices are determined by the global market, input costs include both cotton - a commodity with a global price - but also increasing indirect emission costs that only apply for the EU undertakings. In other words, undertakings of the sector sell with a unique global price making them price takers, while they strive to absorb indirect emissions costs. Trade patterns also reveal that there is a high penetration of extra-EU imports towards exports.

As for the bargaining position of the sector, the pricing power over downstream consumers of the sector is really low since it is undoubted that the output of the sector is of low added value. Moreover, during the last years numerous undertakings have closed. According to the Hellenic Statistical Authority that provide data for Greece on 4-digit NACE code, in 2011 there were 81 undertakings in the sector with a total turnover of 169M€ and a total number of 1.532 employees[1], while in 2016 there were 51 undertakings in the sector with a total turnover of 99M€ and a total number of 1.150 employees[2].

Due to the facts that indirect emissions costs account for a large share of the production costs and that there is very low profitability in the EU undertakings, there is a strong incentive for relocation outside the EU where the profit margins are higher mainly due to the absence of emission costs. This is also highlighted by the fact that all new investments globally are outside the EU ETS Area. Moreover, considering that the goods of the sector are already heavily traded - with routes and infrastructures already well established - and that there is already a high negative trade balance for EU, it is clear that the relocation of undertakings is more than feasible.

Concerning the abatement potential of the sector, it is clear that EU undertakings, in their vast majority, are already adopting the best available techniques because apart from reducing indirect emission costs, they have an inherent need to cut on energy

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[1] Official data for 2011 for the number of legal units, turnover and employment per four-digit NACE code for the whole Country are available online at: https://www.statistics.gr/en/statistics/-/publication/SBR01/2011

[2] Official data for 2016 for the number of legal units, turnover and employment per four-digit NACE code for the whole Country are available online at: https://www.statistics.gr/en/statistics/-/publication/SBR01/2016

cost as well. This is also proven by the fact that EU undertakings have less average indirect emission intensity than the ones outside EU. Moreover, the expected conditionality of the indirect compensation based on energy improvement investments will force any undertakings that may have not already done so, to adopt the best available technologies. Furthermore, EU legislation enforces the adoption of energy improvements and the indirect emissions compensation cannot be considered as a means to avoid them.

Due to the aforementioned facts, NACE 13 10 - Preparation and spinning of textile fibres should remain amongst the eligible sectors; otherwise a massive relocation of the undertakings outside the EU will inevitably take place.

Aid intensity and degressivity

The draft Guidelines define the maximum aid intensity at 75% and also introduce the possibility for Member States to further limit the exposure of eligible sectors for whom these costs, even after applying the 75% compensation can make up a disproportionate amount of their GVA. Within this framework, the draft Guidelines provide Member States with the option to further limit the amount of the indirect costs to be paid at undertaking level, to a percentage of the gross value added.

Our view is that an aid intensity capped at 75% will prove to be insufficient to ensure that there is adequate protection against the risk of carbon leakage, especially for sectors that indirect emission costs occupies a large share of their GVA and taking into consideration that European industry's exposure is on a constant rise, mainly due to the increase of CO2 prices.

For this reason, the Federation –in line with the assessment report - strongly supports the introduction of the new possibility for Member States to further limit the amount of the indirect costs to be paid at undertaking level to a percentage of the GVA of the concerned undertakings, which may reasonably be defined at 0.5%. This new possibility is considered necessary in order to create a level playing field between EU undertakings and their global competitors.

The draft Guidelines foresee that the electricity consumption efficiency benchmarks shall be updated on the basis of the methodology specified in Article 10a(2) of the EU ETS Directive.
Under this methodology, the Commission shall determine the annual reduction rate for each benchmark and shall apply it to each electricity consumption efficiency benchmark.

This reduction of the benchmarks on an annual basis, is expected to have a negative impact on the ETS indirect costs compensation scheme, since by further reducing the ETS indirect costs compensation, there will be less financial resources for investments in energy efficiency, electrification of industry, and adoption of Best

Available Technologies, in line with the EU's strategy for long-term greenhouse gas emissions reductions.

Conditionality

Federation's opinion is that any further reduction of the level of compensation would render the scheme inadequate to address the risk of carbon leakage and that the aid granted through the indirect ETS costs compensation scheme should not be made conditional upon additional requirements. This is also highlighted by the fact that the scheme already foresees a set of rules which allow only partial -and not full-compensation of the eligible undertakings. In any case, any additional requirements must be set in a way that ensures that no disproportionate burden will be put on eligible undertakings.

To conclude, we would like to stress the need for NACE 13 10 - Preparation and spinning of textile fibres to remain amongst the eligible sectors since without the indirect emissions cost compensation, EU undertakings will lose market share and eventually close.

We remain at your disposal for any further clarification.

Yours sincerely,

Chairman of the Federation of Greek Textile Industrialists

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