Σύνδεσμος Βιομηχανιών Θεσσαλίας & Στερεάς Ελλάδος
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Subject: Association of Industries of Thessaly and Central Greece-AITCG position paper on draft ETS State aid Guidelines (Ref: HT 582)

The Association of Industries of Thessaly and Central Greece-AITCG is a Legal non-profit entity, operating under Private Law, established in 1966 in Volos, covering the geographic regions of Thessaly and Sterea Ellada. AITCG is the main trade union organization of manufacturing companies in both regions, and a dynamic regional Association of the country.

Association of Industries of Thessaly and Central Greece has members from all industrial sectors of activities. Association' s members include industrial, craft and manufacturing companies, Greek sectoral, regional or local business organizations, as well as SMEs providing services to the Industry sector.

Association's membership represents a diverse set of energy-intensive industrial sectors, including steel, non-ferrous metals (aluminum, copper), cement, paper, fertilizers, textiles, chemicals and other.

The draft ETS State aid Guidelines proposed for consultation, need to address three specific objectives: minimising the risk of carbon leakage, preserving the EU ETS objective to achieve cost-efficient decarbonisation and minimising competition distortions in the internal market. The adopted Guidelines should remain consistent with, and contribute to, all relevant climate-related policy instruments that will be proposed in the context of the Green Deal to ensure effective carbon pricing throughout the economy, while respecting a level playing field.

In order to contribute to the Public consultation on draft ETS State aid Guidelines (Ref. HT582), Association of Industries of Thessaly and Central Greece, would like to submit its contribution, as follows:

Eligible sectors

Compared to 2012 ETS Guidelines, the proposal for the revision of the Emission Trading System Guidelines provides an updated and more limited list of sectors eligible for compensation. This updated list includes eight sectors, with **NACE 13 10 Preparation and spinning of textile fibers** having been removed, despite the fact that the sector fulfils the criterion of the indirect carbon leakage indicator since it has a value of 0.244 > 0.2, in the assessment study the carbon leakage risk of the sector is defined as low. We suspect that this was a result of insufficient representation of the sector during the targeted consultation, and of the probably missing or not representative quantitative information used[1].

Concerning the market characteristics, there is almost no link between input/production costs and output prices, 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 at 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, because the output of the sector is of low added value, the pricing power over downstream consumers is really low. 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 number of 1.532 employees and a total turnover of 169M€[2], while in 2016 there were 51 undertakings in the sector with a total number of 1.150 employees and a total turnover of 99M€[3].

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 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

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[1] Annex 3 of the assessment study reveals the absence of responses concerning the sector to the targeted consultation. Moreover, two European associations were also contacted for information but provided no response

[2] https://www.statistics.gr/en/statistics/-/publication/SBR01/2011 [04. Number of legal units, turnover and employment per four-digit branch of economic activity in the whole Country] accessed 20.02.2020

[3] https://www.statistics.gr/en/statistics/-/publication/SBR01/2016 [04. Number of legal units, turnover and employment per four-digit branch of economic activity in the whole Country] accessed 20.02.2020

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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, AITCG –in line with the assessment study - 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.

Association's opinion is that due to the fact that the electricity consumption efficiency benchmarks will be updated in 2025, the Commission will have the ability to effectively capture any potential efficiency gains in the sectors concerned and thus, the electricity consumption efficiency benchmarks should not be subject to an annual reduction on the basis of the methodology specified in Article 10a (2) of the EU ETS Directive.

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Conditionality

Association’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.

We remain at your disposal for any further clarification.

With honor

ELENI KOLIOPOULOU
PRESIDENT
OF THE BOARD OF DIRECTORS

ARISTOMENIS EFREMIDIS
GENERAL SECRETARY
OF THE BOARD OF DIRECTORS

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