Trade and Emission Intensity in the European Tyre Industry - REPORT

The meeting was opened by **Ms Cinaralp**, Secretary General of the Europan Tyre and Rubber Manufacturers' Association. She explained that the purpose of the meeting was to inform the work of the European Parliament as to the impact of the carbon leakage metric chosen by the European Commission in its proposal on the European tyre industry.

In such proposal, sectors with a high trade intensity and unable to pass on carbon costs, whilst being low emitters, would not be considered at risk of carbon leakage. This would result in an unfair and unbalanced distribution of free allowances.

She stressed that the tyre industry is committed to ETS and would like to invite the Parliament to enter into the ETS debate without taboos, making its full weight felt in the co-decision procedure.

Mr Duncan MEP, Rapporteur for ETS in the Environment Committee, stressed that there was a great need for consensus inside the Parliament to ensure that the final report would be balanced and workable.

To do so, several options were being discussed with all the shadow rapporteurs to ensure that the final report would reflect the views of all.

On the specific issues raised by ETRMA, he wondered whether the small emitters' scheme could represent a possible solution for the tyre industry. Furthermore, he mentioned that the qualitative assessment could also represent a solution. However, he noted that it was not yet clear how this would work in practice and that consensus was being built towards alternative options with regard to the threshold.

Robin Smale, Director at Vivid Economics, presented the findings of a study commissioned by ETRMA on the economic impact of ETS on the tyre sector.

He noted that the ability to pass on carbon costs was an important element determining the effect of ETS on the competitiveness of the industry.

Because of the alteration of the cost structure due to ETS, there would be a redistribution of market shares across actors in the market. As a result, some market share could be lost in favour of firms outside the EU.

He stressed that the model used to calculate cost pass through was standard and looking at long term effects, taking into consideration the response of consumers to cost increases.

He mentioned that it was not surprising that tyre sector had a low cost pass through rate (48%) because of the strong pressure from imports.

According to the study, the economic impact on the sector (revenue loss) in 2030 would go up to 640 million per annum, according to the estimated price of allowances, with obvious consequences on employment and wages.

Given the strong correlation between cost pass through, profit margins and competitiveness, cost pass through should be taken into consideration in the qualitative assessment.

During the Q&A, a discussion ensued on the "tiered approach". It was noted that the UK and French proposal was one of the alternatives to the Commission's approach that was taken into consideration.

ETRMA noted that the tiered approach - in its current design - would not respond to the needs of the industry as its extreme trade intensity would not be taken into account.

On the reliability of cost pass through, Mr Smale noted that estimates were not available for all sectors and some assumptions had to be made, making it disputable. However, if the purpose of the free allocation were clear, then cost pass through estimates, together with estimates of change in quantity leakage, could be used to inform the qualitative assessment.

With regard to the impact of ETS-like systems outside the EU by 2030, Mr Smale responded that it was too early to know what obligations they would place on non-EU firms.

In the conclusions, it was noted that the speed of negotiations was picking up and that there was hope for the co-decision process to finish in 2017.