

ETRMA comments on the document: Commission Implementing Regulation (EU) .../... determining revised benchmark values for free allocation of emission allowances pursuant to Article 10a(2) of Directive 2003/87/EC of the European Parliament and of the Council

Brussels, 5th January 2021

Subject: ETRMA requests that the benchmark value for heat exchange allowances remains 62.3 allowance/TJ for the first five years of the ETS IV period

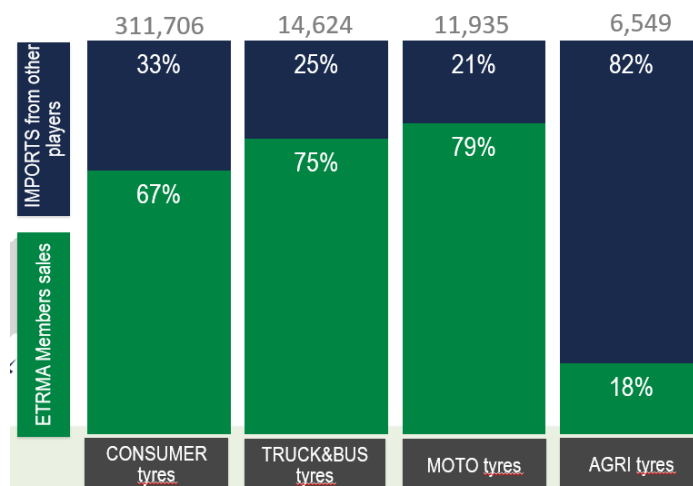
- The current economic context, with the COVID-19 pandemic, will reduce the GDP by 7.5%. The European tyre industry feels the double effect of a slowing demand from the Original Equipment Market -which is estimated for 2020 at -25% - as well as a plunge in the replacement market, estimated at -17% for the passenger car and light truck segment and -13% for the truck and bus segment
- Extra-EU Tyre imports are rising with fierce competition. In a context of high trade intensity, estimated in 53% for 2019 (expected to increase up to 66% over in the EU ETS phase IV), increasing import penetration (+18 pts expected growth over EU ETS IV compared to 2017) and low ability to pass-through costs because of a low bargaining power, the sector faces a strong risk of carbon leakage.
- The Tyre industry is only accountable for 30% of allowances for direct emissions for the first part of the ETS IV period, with a full reduction of allowances by 2030.

Context:

The European tyre manufacturers (NACE 22.11) employ c.200,000 persons directly (indirect and induced employment account for c.800,000 persons). As such, they are major contributors to the European economy.

In a competitive worldwide market, the EU production has lost market shares since 2009, with European manufacturers' share of the EU market decreasing from 80% in 2009 to 67% in 2019 for passenger car tyres, and from 89% to 75% for truck and bus tyres¹.

Figure 1 Sources: : ETRMA, Eurostat, Europool 2019



¹ Please note that this figure had reached 66% in 2016 before antidumping duties against Chinese truck tyre imports were imposed.

As shown in the graphs below regarding passenger cars and light vehicles tyres and truck and bus tyres, the European demand for NACE 22.11 products produced in the EU has been stagnating since 2011. At the same time, imports have been steadily growing with a total increase between 2009 and 2019 of more than 66% and of more than 100% for passenger car/light truck tyres and truck and bus tyres, respectively.

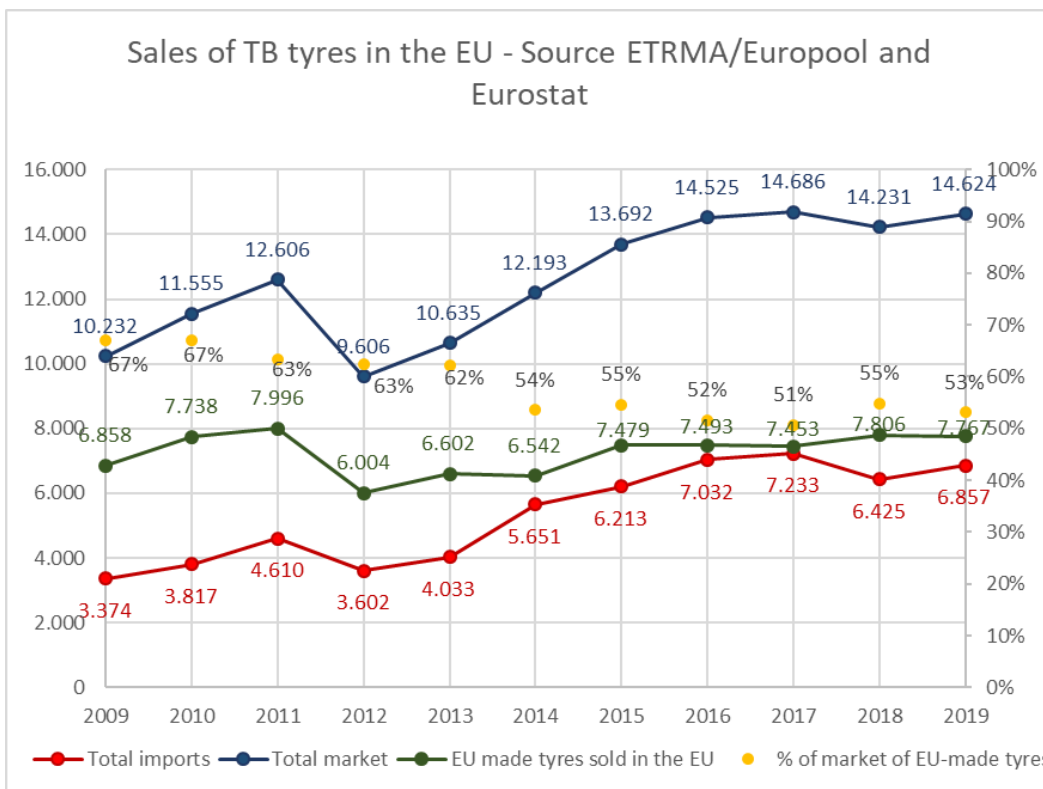
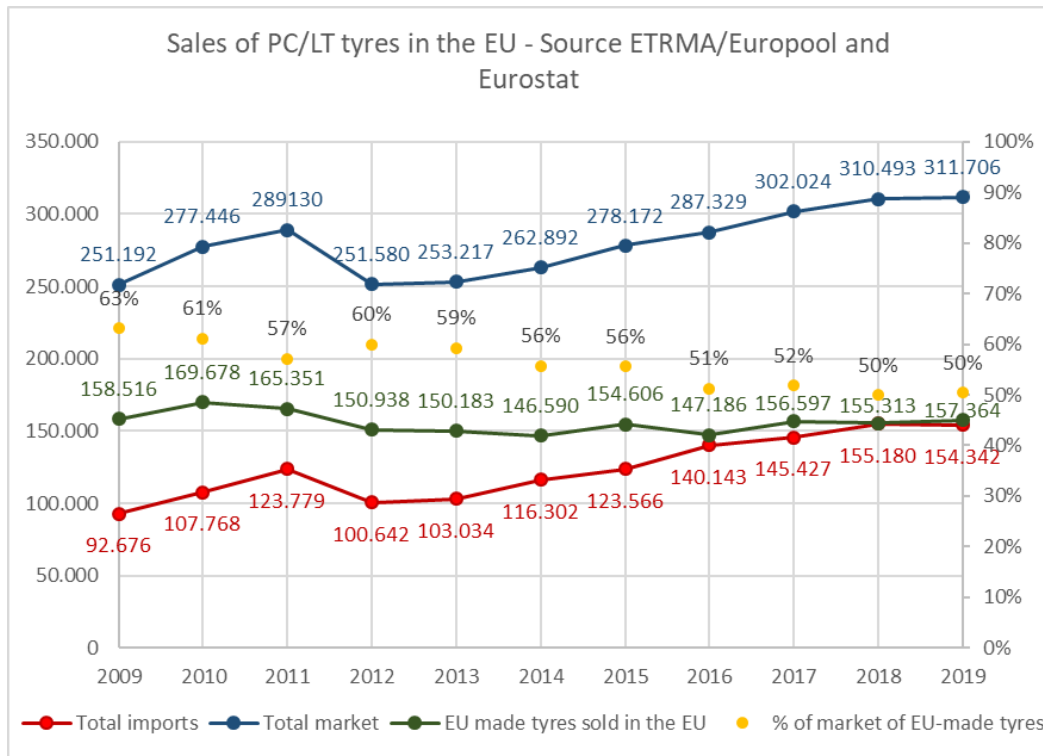


Figure 2: Annual sales on the European tyre replacement market for Passenger Cars, PC, Light Truck, LT, Truck and Bus, TB, tyres.



With the arrival of new entrants - accelerated with the surge of new distribution channels (online) - pressure on prices and margins has been high. Online pure players have emerged in the last ten years and offer a wide variety of brands and product types. The online channel has also made sell-out prices more visible and the differences between premium and budget import brands is now more visible to consumers.

To remain competitive, European players had to optimize their industrial footprint. Many have chosen to intensify their investment efforts in Eastern Europe to be closer to their customers and to optimize costs

Exports have been stable but 2019 EU-28 export destinations are misaligned with future growth geographies. For instance, the US is the first export destination (20% of exports in 2019) while the American market is expected to slow down in the coming years (-3% by 2025).

In a context of high trade intensity, estimated in 53% for 2019 ² (expected to increase up to 66% in the EU ETS phase IV), increasing import penetration (+18 pts expected growth over EU ETS IV compared to 2017) and low ability to pass-through costs because of a low bargaining power, the sector faces a **strong risk of carbon leakage**.

The bargaining power of the sector is already particularly undermined by fierce international competition and increased competition from importers in the future could further lower the cost pass-through rate.

The tyre market is primarily an international market where consumers are given more and more choice with cheaper products manufactured outside the EU. Passing costs through to customers is limited since prices are already pressured down by extra-EU imports.

Efforts to decrease direct and indirect emissions have been continuous and Best Available Technologies are already widespread in the EEA. Manufacturers have adopted a systematic approach to energy management, with cogeneration being on the front run of energy management solutions. A decrease in the in the Heat Exchange benchmark, as suggested in the delegated act, will particularly diminish the efforts of the industry to reduce direct emissions.

Because of these long-standing abatement efforts, direct emissions of the sector only account for 31% of the sector's emissions in 2016. Direct emission intensity has decreased by -0.6% between 2014 and 2016, while production volumes augmented. Indirect emissions intensity has declined by 2.8% per year.

² Trade intensity calculated as: (Imports extra EU + Exports extra EU) / (Imports extra EU + Production). Source: Compensation for Indirect Costs of the EU ETS for the EU tyre industry (NACE Rev.2 code 22.11) Prepared for ETRMA, 8th April 2019 by Strategy, part of PwC

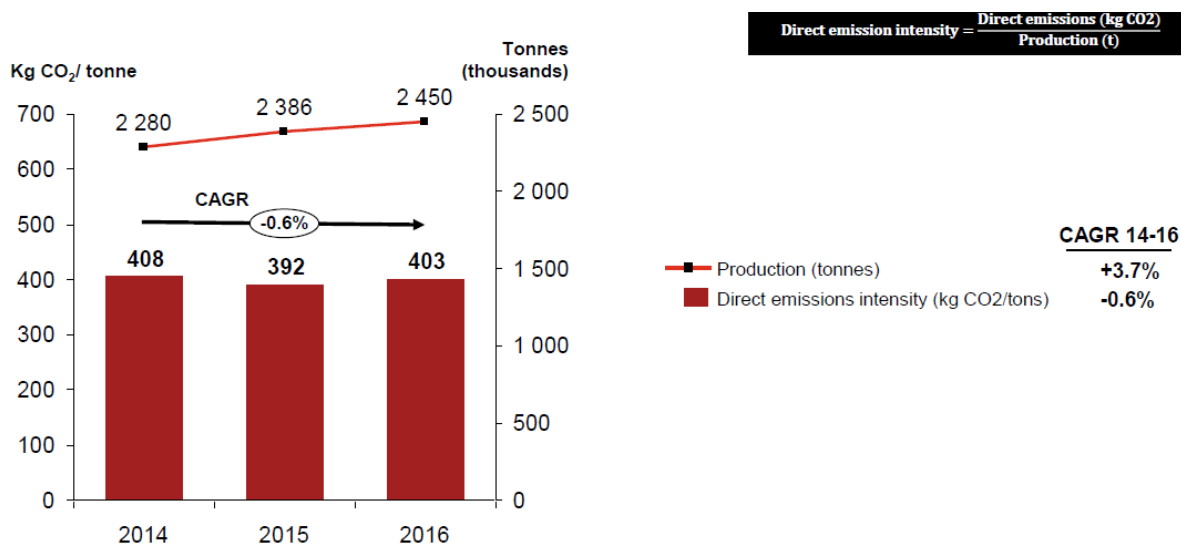


Figure 3: Direct emission intensity (column, in kg CO₂ / tonne) and considered production (line, thousands of tonnes). Company data, EEA, 2014-2016. Source: Compensation for Indirect Costs of the EU ETS for the EU tyre industry (NACE Rev.2 code 22.11) Prepared for ETRMA, 8th April 2019 by Strategy, part of PwC

In a context where extra-EU imports are rising, the sector faces an important risk of carbon leakage. In addition, from 2021 on, the sector will no longer be granted 100% free allowances with respect to the benchmark for direct emissions and is not entitled to compensation of indirect costs. Only 30% allowances for direct emissions are accounted for the Tyre sector from of 2021, with a full reduction of allowances by 2030.

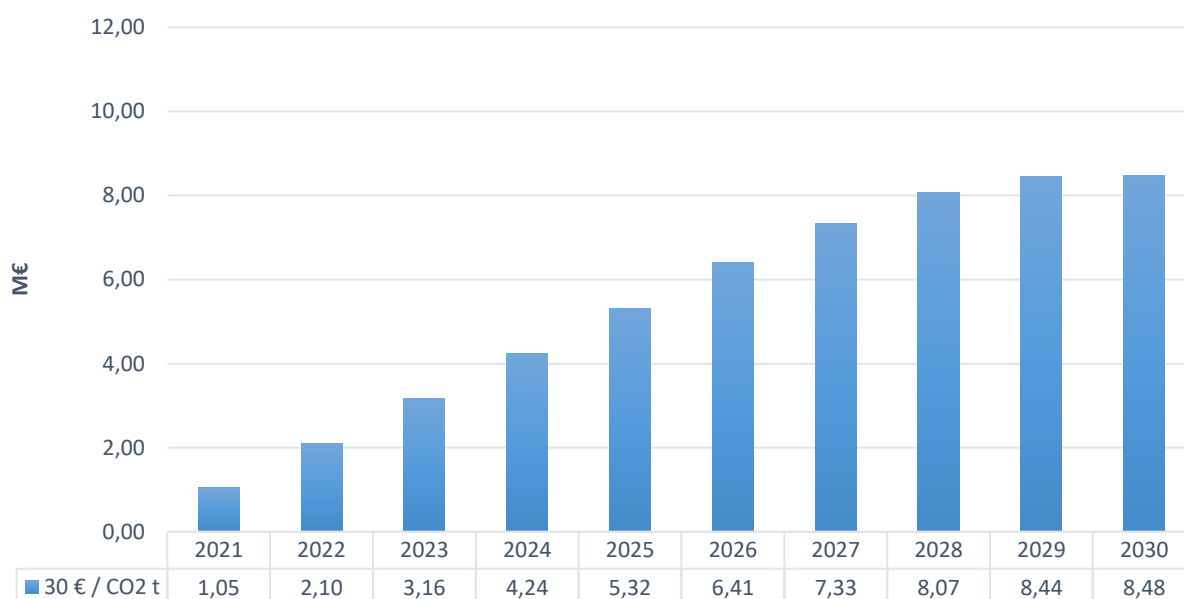
The proposed Delegated act on determining revised benchmark values for free allocation of emission allowances pursuant to Article 10a(2) of Directive 2003/87/EC opened for comments from of the 14th of December 2020. It proposes a benchmark value (allowances/TJ) of 47,3 and 42,6 of Heat benchmark and fuel benchmark respectively. This is dramatic change compared with the current situation that sets the Benchmark to 62,3 and 56,1 allowances/TJ for heat and fuel benchmark respectively.

This places a lot of pressure on our sector that already faces a reduction from 100% direct cost allowances to only 30% for the beginning of the ETS IV period, and expected to move to 0% at the end of ETS IV period, 2030. The cumulative cost of the total CO₂ direct emissions for the period 2021-2030 was expected to be in the range of 254 to 346 M€ with a benchmark value of 62,3 allowances/TJ. With the proposed new benchmark of 47,3 allowances/TJ, the total cumulative cost of CO₂ direct emissions for the same period is estimated to reach up to 357 M€, with a loss of up to 11 M€ in allowances for the whole ETS IV period.

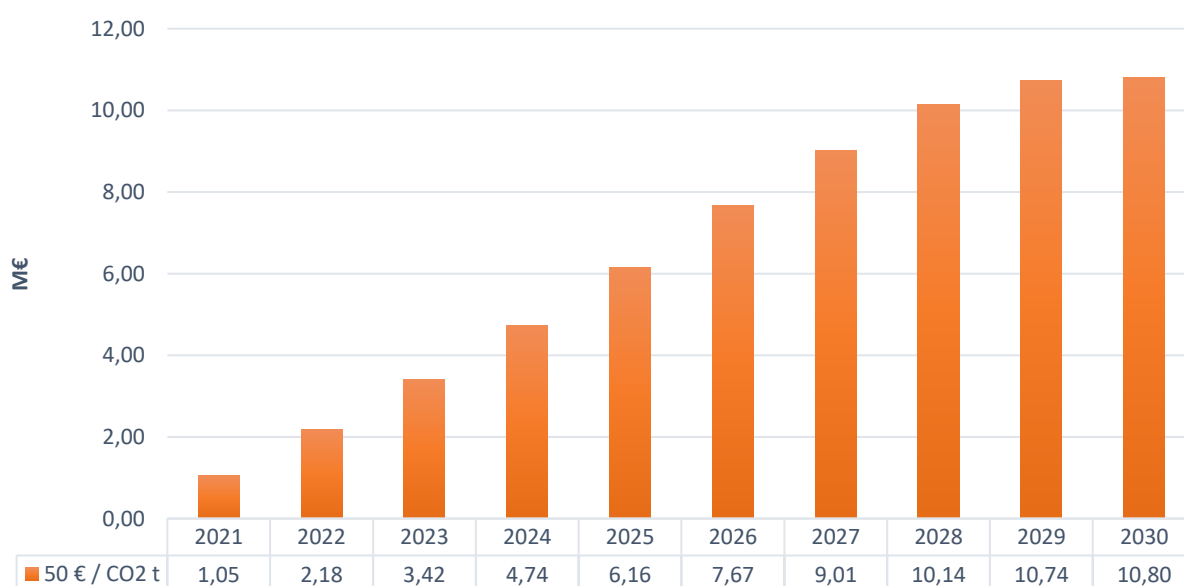
The loss is accentuating within the first 5 years, 2021-2025 period, with a decrease in allowances estimated in 6 M€ in the worst case scenario, in a really convulsive period, were the effects of the COVID-19 pandemic are evident. Indeed, the COVID-19 pandemic resulted in an unprecedented contraction of the EU economy, estimated by the European Commission at -7.5% of GDP in 2020³. European tyre industry felt the double effect of a slowing demand from the Original Equipment Market -which is estimated for 2020 at -25% - as well as a plunge in the replacement market, estimated at -17% for the passenger car and light truck segment and -13% for the truck and bus segment.

³ LMC 2020 <https://www.etrma.org/wp-content/uploads/2020/05/LMC-Covid19-Outlook-EU-Market.pdf>

**Cumulative Cost difference of CO₂ Direct Emissions for Tyre ETS plants
between benchmark value 62,3 and 47,3 (al/TJ)
for ETS IV period 2021-2030 , 30€/t CO₂ by 2030**



**Cumulative Cost difference of CO₂ Direct Emissions for Tyre ETS plants
between benchmark value 62,3 and 47,3 (al/TJ)
for ETS IV period 2021-2030 , 50€/t CO₂ by 2030**



Direct emission intensity by terajoules of heat consumed decreases by 0.01% per annum, as per the avg. 2014 2016. 62.3 and 47.3 allowance/ TJ of heat consumed for ETS III, with an average yearly decrease of the benchmark by 0.2% as of the ETS Directive scenarios to take into account/ encourage technology efficiency improvement on direct emission intensity

Carbon Price Linear development from 2021 to 2030. Two scenarios based on the expectations from the Commission on Carbon Prices (including a 50€/t scenario). In this forecast, it is assumed that the NACE 22.11 domestic demand benefits entirely from the global automotive market volume growth. Over 2021-2030, the growth for domestic demand is equal to a yearly +1.9%

Therefore, considering that:

- The current economic context, with the COVID-19 pandemic, will reduce the GDP by 7.5%. The European tyre industry feels the double effect of a slowing demand from the Original Equipment Market -which is estimated for 2020 at -25% - as well as a plunge in the replacement market, estimated at -17% for the passenger car and light truck segment and -13% for the truck and bus segment
- In a context where extra-EU imports are rising, with fierce competition. With high trade intensity, estimated in 53% for 2019 (expected to increase up to 66% over in the EU ETS phase IV), increasing import penetration (+18 pts expected growth over EU ETS IV compared to 2017) and low ability to pass-through costs because of a low bargaining power, the sector faces a strong risk of carbon leakage.
- With the Tyre industry being accountable for only 30% allowances for direct emissions for the first part of the ETS IV period, and with a full reduction of allowances by 2030.

The benchmark value for heat exchange 62.3 allowances/TJ shall remain applicable for the first five years of the ETS IV period, or at least keep the current value for Combined Heat and Power, CHP, ETS installations.

In this context, the following amendments are suggested to the proposed text:

a) 3. Heat and fuel benchmarks

Benchmark	Average value of the 10 % most efficient installations in 2016 and 2017 (t CO ₂ equivalents/TJ)	Benchmark value (allowances/TJ) for 2021-2025
Heat benchmark	2,8	47,3 *
Fuel benchmark	38,2	42,6

**** Heat benchmark value shall read 62,3 (allowances/TJ) for the next 5 years from the entry into force of this regulation for ETS installations***

End comments

European Tyre and Rubber Manufacturers' Association members (www.etrma.org).

ETRMA represent 93 tyre manufacturing plants spread across EU28, Turkey and other candidate countries employing some 200.000 direct jobs in the tyre sector. ETRMA, represents more than 6.000 companies in EU28, employing 360.000 individuals and supports another 800.000 jobs in related sectors. The product range of its members is extensive from tyres to pharmaceutical, baby care, construction and automotive rubber goods and many more applications. ETRMA members' turnover in 2016 is approximately € 73 billion, of which up to 5% continues to be invested in R&D, annually. ETRMA's membership include the following tyre manufacturers: APOLLO VREDESTEIN, BRIDGESTONE EUROPE, BRISA, COOPER TYRES, CONTINENTAL, GOODYEAR EUROPE, HANKOOK, MARANGONI, MICHELIN, NOKIAN TYRES, PIRELLI, PROMETEON, SUMITOMO RUBBER INDUSTRIES AND TRELLEBORG WHEEL SYSTEMS. Furthermore, members include Associations in the following countries: Belgium, Finland, France, Germany, Hungary, Italy, the Netherlands, Poland, Spain and the UK.