Cerame-Unie The European Ceramic Industry Association

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EU ETS Directive review for 2030-2040

Cerame-Unie position paper

On 17 July 2026, the European Commission published its proposal for the review of the EU ETS Directive, which establishes a system for greenhouse gas (GHG) emission allowance trading within the Union and aims at promoting reductions of GHG emissions in a cost-effective and economically efficient manner.

The European ceramic industry produces a **wide range of products**, from durable construction materials (such as bricks and roof tiles, ceramic tiles, sanitaryware and expanded clay), consumer goods (like tableware and ornamentalware), to crucial industrial and advanced products (refractories and technical ceramics). Generating a production value above €30 billion and providing more than 200 000 direct jobs in Europe, the ceramic industry is an important contributor to the European economy. It approximately comprises 10% of all EU ETS in-scope industrial installations, while accounting for only less than 1% of total industrial emissions, as over 80% of ceramic installations are **small emitters** releasing less than 25 000 tCO_2 per year.

The ceramic industry has reduced its total GHG emissions by around 33% since 1990 and by more than 45% from its peak in the 2000s. While the sector is progressing towards climate neutrality, as highlighted in Cerame-Unie's *Ceramic Roadmap to 2050*, **achieving its decarbonisation objectives and deploying the necessary technologies largely depend on external conditions beyond operators' control**, notably the availability of affordable alternative energy sources, technologies and infrastructure. At the same time, **the competitiveness of the European ceramic industry is** exposed to unfair competition from third countries and high energy prices, further exacerbated by the recent energy crisis. In the last years, the ceramic sector's production has declined sharply, with a 30% decrease in manufacturing, a more than 50% reduction in the trade balance and a 10% loss in jobs.

Against this backdrop, **the review of the EU ETS Directive should contribute to preserving the competitiveness of the European ceramic industry** by providing a stable and predictable framework that effectively supports investments and decarbonisation through continued and adequate protection against carbon leakage and effective support for investments. The EU ETS Directive should avoid imposing disproportionate CO_2 costs that could ultimately accelerate the relocation of ceramic production outside Europe and create over-complex administrative burden for companies.

1. **International credits shall be made available for companies' use.**

Cerame-Unie welcomes the introduction of high-quality and high-integrity international credits, reducing the need for domestic GHG emission reductions by up to 5 percentage points by 2040. To further incentivise their uptake and ensure that this is reflected in an adjustment of the EU ETS cap to 85%, Cerame-Unie supports **making international carbon credits available to companies within the EU ETS scope**, rather than limiting their use to Member States only. The European Commission should also establish an appropriate framework in line with Article 6.4 of the Paris Agreement and the European Climate Law (Reg. (EU) 2021/1119), ensuring robust criteria and safeguards to guarantee the integrity and effectiveness of such credits.

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2. **Carbon leakage protection shall be strengthened through adequate and continued free allocation, without conditionalities.**

Cerame-Unie supports the Commission's proposal entailing the extension, of the current carbon leakage protection instruments (free allocation and the carbon leakage list) until 2040 and beyond, while particularly welcoming the decision to maintain the current carbon leakage list. However, an adequate protection for exposed installations must be granted **without any additional conditionality**. Making free allocation conditional to decarbonisation investments would fundamentally alter the nature of the current instrument, thereby weakening an essential safeguard for maintaining the viability and competitiveness of European manufacturing.

The progressive reduction of free allocation under the EU ETS, coupled with regulatory requirements from different EU legislation (e.g. coming from the Energy Performance of Buildings Directive) is already driving decarbonisation investments in the industry. However, while investments are constrained by the availability and affordability of suitable technologies and alternative energy sources, **installations within the EU ETS scope remain continuously exposed to carbon leakage**, due to the gap between the carbon cost in Europe and in third countries, where carbon pricing is mostly absent or not comparable to the EU. Introducing conditionality would weaken this protection and ultimately undermine the competitiveness of the European industry, potentially encouraging the relocation of production outside the EU rather than supporting investments in clean technologies in Europe.

Conditionality would also undermine the predictability of the EU ETS, as operators would not know at the start of an allocation period the preliminary amount of allowances they will receive, if the residual 20% EUAs will be allocated, or whether they may subsequently be required to return allowances for failing to meet certain targets or conditions. Finally, the obligation to prepare and publish an "*Investment in EU decarbonisation plan*" would **significantly increase the administrative burden on companies**, contrary to the European Commission's recent commitments to simplification.[1] It would also lack the flexibility and technological neutrality needed to plan long-term decarbonisation investments, as operators may not be able to determine in advance which of the alternative solutions (e.g., access to a sufficient electricity supply or connection to a hydrogen grid) will become available at their production site in the coming years.

3. **ETS benchmarks shall be aligned with the industry's real decarbonisation potential.**

The review of the EU ETS Directive shall ensure that the ETS **benchmarking methodology reflects the technological reality and GHG emissions reduction potential of installations**, including the technical and economic feasibility of available decarbonisation options for each sector and production process. No further reduction of benchmarks shall be implemented, until the enabling conditions for decarbonisation are in place in the EU. In this regard, Cerame-Unie welcomes the Commission's proposal to introduce **sector-specific fallback benchmarks** in the post-2030 EU ETS framework, as a first step towards benchmark values that better reflect the emissions reduction potential of different industrial sectors. However, this should be complemented by a comprehensive review of the EU ETS benchmark methodology, ensuring that benchmark values are based on realistic operating conditions and reflect the technological progress of sectors on their path to climate neutrality. For all sectors, and with a specific regard to smaller sectors where only few installations are operating under the EU ETS, the methodology should duly consider the **EU-wide availability and affordability of alternative energy**

[1] Budapest Declaration on the New European Competitiveness Deal (2024) and EU Strategic Agenda 2024-2029.

sources, infrastructure and technologies, and ensure that benchmark updates are based only on installations operating under conditions representative of the relevant sector or subsector.

Furthermore, to better align the benchmark update rate with the lower Linear Reduction Factor (LRF) trajectory, set at -3.7% between 2031 and 2035 and -1.7% from 2036, **the maximum annual benchmark update rate should be lower than the Commission proposal of 2% and preferably capped at maximum 1.5% per year**. The recent allocation period has proven that the upper reduction rate – 2.5% per year and 50% in total – was too ambitious for most of the EU ETS installations, particularly for certain ceramic sectors under fallback approach. The latter, which were confronted with a lack of alternatives and enabling conditions while at the same time facing increased energy and carbon costs for the period 2026-2030.

4. **Eligibility for indirect costs compensation shall be extended to all sectors exposed to carbon leakage.**

Cerame-Unie welcomes the Commission's proposal to extend indirect costs compensation beyond 2030. However, **all ceramic subsectors should be eligible for compensation under the ETS State Aid Guidelines**, as should all energy-intensive industries included on the carbon leakage list. Electricity costs, including indirect costs, represent a significant share of the regulatory costs faced by the ceramic industry, accounting for up to **46% according to the EC Cumulative Costs Assessment for ceramics**.[2] The availability and affordability of alternative energy sources, particularly electricity, are critical to the sector's decarbonisation progress: high electricity prices exacerbate the impact of the energy crisis and hinder investments in alternative energy sources. Electrification is an emerging technique for the decarbonisation of thermal processes in most of the ceramic industry's subsectors, in particular for firing at temperatures up to 1350 °C (for higher firing temperatures, in the most of the products within refractories and technical ceramic industry, electrification solutions are currently not technically available). To reflect the current conditions and technological developments in energy-intensive industries and support the decarbonisation of hard-to-abate sectors, **eligibility for indirect costs compensation is a necessity and should therefore be extended to all ceramic subsectors and all energy-intensive industries exposed to carbon leakage, without additional conditionality**. To incentivise electrification in the industry, it is necessary that the indirect costs are treated the same as the direct costs under the EU ETS.

5. **CBAM shall ensure effective carbon leakage protection, including for exports and newly covered sectors.**

Despite the Commission's recent proposal to establish a Temporary Decarbonisation Fund, CBAM still **provides no instrument to protect export-oriented sectors**, which account for a significant share of the European ceramic industry, particularly wall and floor tiles, refractories and technical ceramics. The proposed slowdown in the phase-out of free allocation for CBAM sectors, together with a differentiated trajectory for installations manufacturing products that may be brought under the CBAM scope at a later stage, are positive steps towards a more realistic integration of CBAM. However, **for sectors highly exposed to carbon leakage, the effectiveness of CBAM in providing adequate protection to the European manufacturers is still unproven**. Furthermore, for some subsectors in the ceramic industry, such as bricks and roof tiles, it has already been proven that CBAM will not be a suitable instrument against the risk of carbon leakage. Under these circumstances, the phase-in of

[2] European Commission DG GROW, CEPS, Economisti Associati, ECORYS, Abramczyk, O. et al., *Cumulative cost assessment (CCA) of the EU ceramics industry – Key findings and executive summary, Publications Office*, 2017, https://data.europa.eu/doi/10.2873/643047

CBAM combined with the reduction of free allocation under the EU ETS risks increasing carbon costs for companies and consumers while delivering no incentives to invest in low-carbon technologies in Europe.

For sectors that may be brought under the CBAM scope in the future, any phase-out of free allocation should be carefully assessed and only take place once CBAM has demonstrated is effectiveness in providing equivalent protection against carbon leakage. In particular, **the reduction of free allocation should follow a gradual and cautious trajectory, taking into account the specific exposure to carbon leakage and trade patterns of the sectors concerned**. Moreover, before any reduction in free allocation takes place, the European Commission must ensure a **robust export solution, including through free allocation**, in order to ensure effective carbon leakage protection for EU production destined for export markets.

6. Simplification measures for small emitter installations shall be reinforced.

The possibility for small-emitter installations to voluntarily opt out of the EU ETS cap-and-trade system into national equivalent measures must be reinforced, as provided for under Article 27 of the EU ETS Directive. The eligibility threshold **should be increased from 25 000 to 50 000 tCO_2/year**, allowing more small-emitting installations, regardless of the company size, to benefit from national equivalent measures while continuing to contribute equally to the Union's climate objectives. To simplify compliance for competent authorities and operators, particularly SMEs and small and mid-cap companies, **Member States should be required to establish voluntary national schemes for small emitters**, with the Commission facilitating the exchange of best practices between existing frameworks.

According to data from the EU ETS Union Registry, the proposed increase in the threshold would cover only **7.3% of traded emissions while potentially encompassing around 74% of EU ETS installations, if introduced EU-wide**. In line with the Commission's objective of reducing administrative burdens, extending the opt-out possibility to installations emitting up to 50 000 tCO_2/year would significantly reduce reporting and compliance requirements for many installations, **without compromising the overall environmental integrity and climate ambition of the system**.

7. Carbon leakage protection shall be addressed in the EU ETS 2 framework.

The ongoing revision of the EU ETS Directive should also address the risk of carbon leakage for installations covered by the EU ETS 2. Almost 400 ceramic installations are currently covered by the EU ETS 2, including smaller installations producing table- and ornamentalware, as well as bricks and roof tiles, refractories, sanitaryware, wall and floor tiles and abrasives. Unlike under EU ETS 1, **ETS 2 currently provides no EU-level mechanism to address carbon leakage**, exposing these operators to potentially significantly higher carbon costs, with the EU ETS 2 carbon price expected to reach up to €259.4/tCO_2 by 2030.[3] While Member States may currently address this risk through national compensation measures, **the European Commission should establish an EU-wide carbon leakage protection mechanism under the EU ETS 2**, in line with the approach under EU ETS 1. This is essential to protect the European industry, composed of smaller size installations, from carbon leakage and prevent distortions of competition within the internal market.

[3] Forecasts from Homaio, Climate Investment Platform (2026).

8. **Earmarking of EU ETS revenues shall provide effective support for industrial decarbonisation.**

The Commission proposal to require Member States to use at least 50% of EU ETS auction revenues for the identified priority areas is based on a sound principle, as sectors paying the carbon price must be supported with the revenues generated by system. However, Cerame-Unie considers that the current proposal does not go far enough to incentivise industrial decarbonisation, and that **a share significantly above 50% of EU ETS revenues should be earmarked for supporting investments in energy-intensive industries, which directly bear the carbon costs and need to decarbonise while remaining globally competitive**. Furthermore, the list of recipients should be clearly targeted to energy-intensive industries, rather than dispersing the earmarked revenues across a broader range of sectors and policy objectives. **Reinvestment obligations should also ensure that all sectors can access to adequate support for decarbonisation**, in particular providing sector-specific funding envelopes or requirements. EU ETS revenues recycling must complement – not replace – carbon-leakage protection through free allocation, granting predictable and accessible support for industrial decarbonisation.

9. **Funding instruments shall address the needs of smaller sectors and installations.**

While free allocation must remain an instrument exclusively for carbon leakage protection, additional support for companies investing in decarbonisation should be provided through the EU ETS framework. To this end, Cerame-Unie supports the Commission proposal of creation of the Industrial Decarbonisation Bank and the Investment Booster. To effectively sustain investment in energy-intensive sectors, clean technologies, affordable energy and raw materials, **funding instruments must be designed to ensure access to an adequate support already before 2030**, in particular by making more funds available under the Investment Booster. Furthermore, **access to financial support must be ensured to all sectors and subsectors within the EU ETS scope**, particularly those predominantly composed of SMEs and small-emitter installations, such as ceramics. Cerame-Unie therefore supports **clear earmarking of funds under the Industrial Decarbonisation Bank and Investment Booster**, including dedicated calls or funding windows for specific sectors, rather than allocating funds solely on a "first-come, first-served" basis. It is necessary that the funding instruments are tailored to the needs of the various sectors as otherwise industries cannot compete for funding on a level playing field (e.g., criteria favouring magnitude of potential abatement in tonnes of CO_2).

The review of the EU ETS Directive provides a critical opportunity for recalibrating the EU climate policy and instruments, bringing the EU ETS closer to the current economic and industrial reality of Europe. A well-designed and predictable framework, combining adequate, unconditional carbon leakage protection with targeted investment support and effective simplification for small emitters, is essential to make sure that the EU ETS supports the ceramic industry's decarbonisation efforts without undermining its ability to remain competitive in Europe and on global markets.