

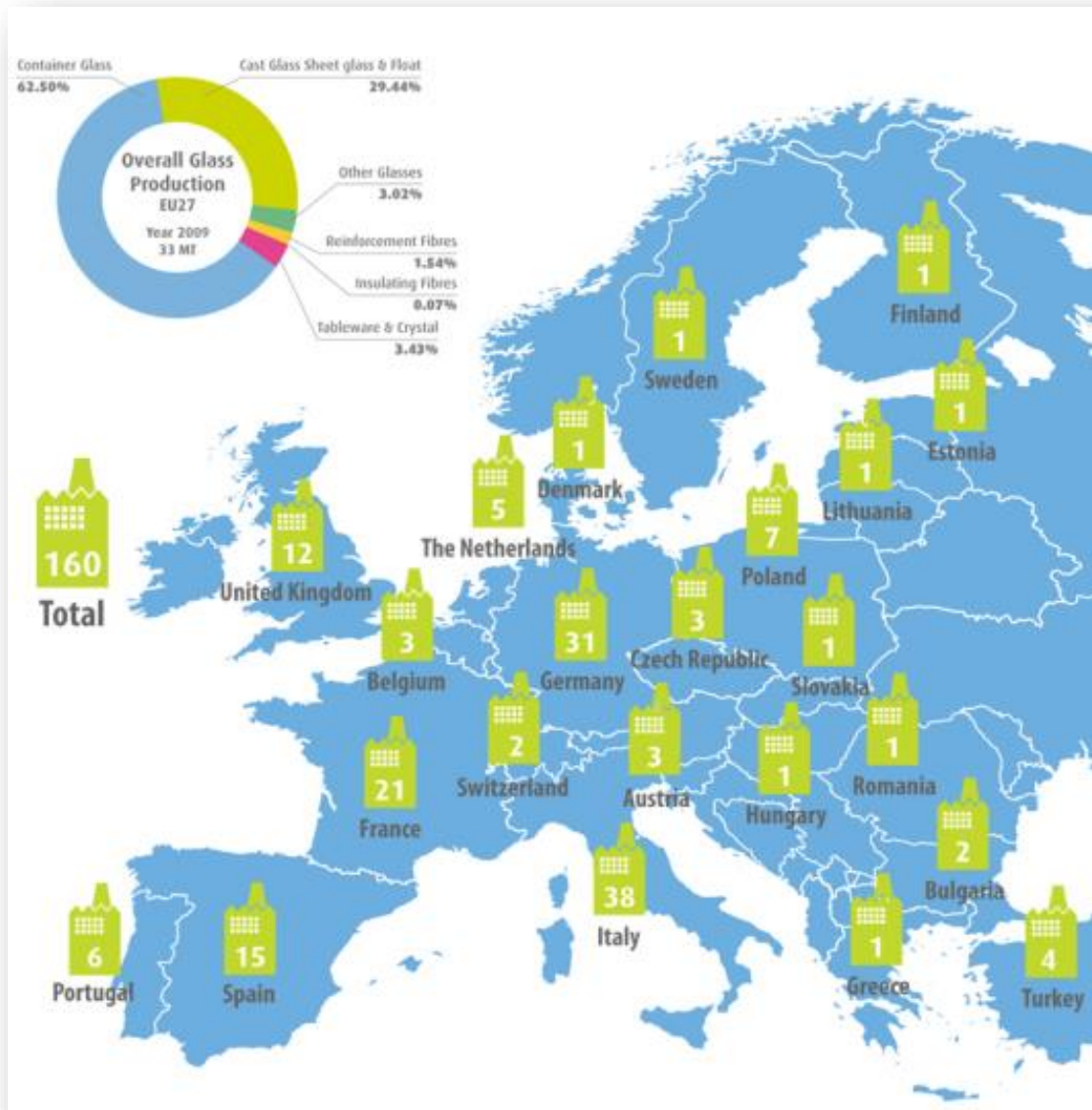


CCA Final Workshop Cumulative Costs Assessment of Glass Packaging 30/10/2017



Fabrice Rivet
Technical Director
FEVE – The European Container Glass Federation

The European glass packaging plants



- **40,000 workers**
- **More than 160 local manufacturing plants in 20 countries**
- **20 MT glass produced**
- **Over 73% container glass collected for recycling**



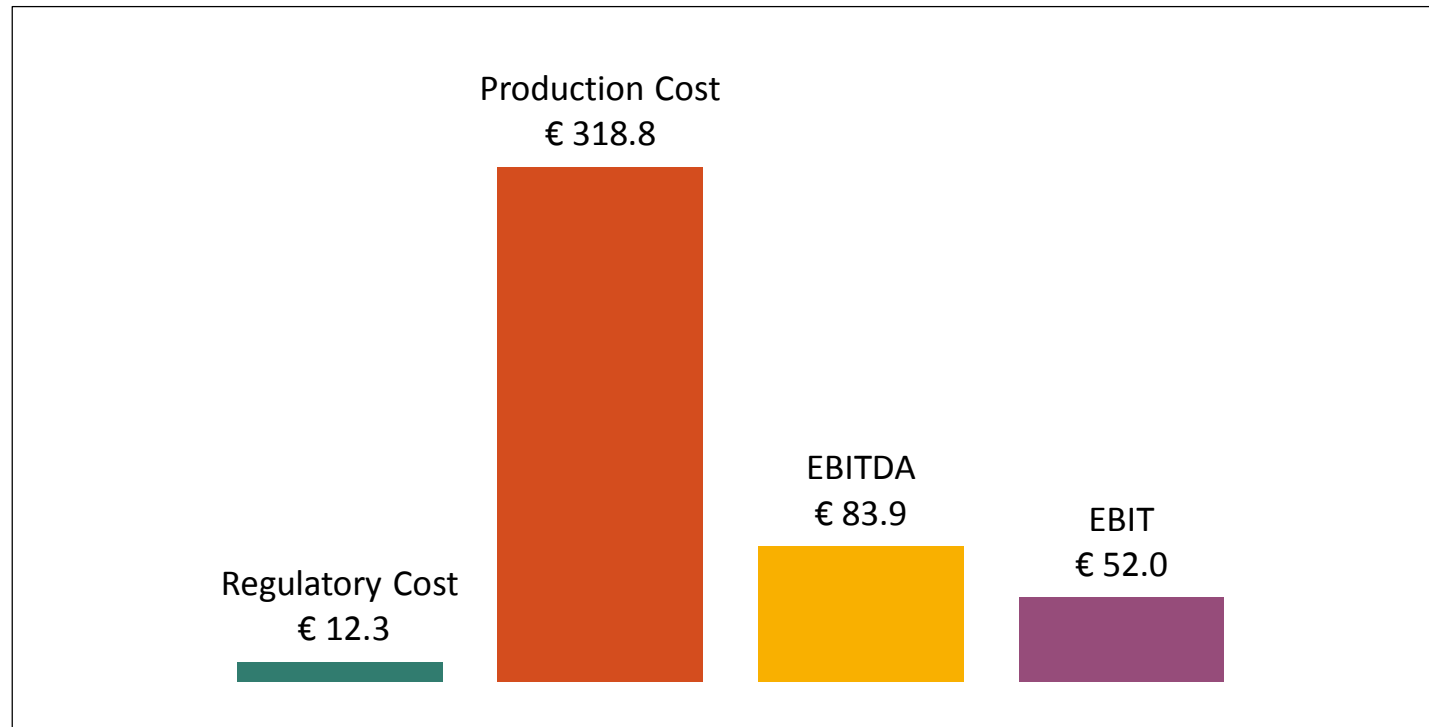
Cumulative Cost Assessment – the process

- **The packaging glass industry welcomed** the initiative of DG Grow to assess the cumulative costs of EU legislation on our industry
- **First study** of its kind for our industries – focus only on the **costs** linked to EU regulation (not national) and **not on the benefits** (e.g. harmonisation)
- **Collaboration** with DG Grow and the consultants **was excellent**

Cumulative Cost Assessment – the process

- **The huge amount of work** which was necessary to complete the CCA (by companies and by consultants) should by no means be underestimated
- CCA is looking **at the past** [2006-2015], **not the future**
- **Some members regret that they could** not replicate the methodology for their own company **to benchmark themselves** with the rest of industry

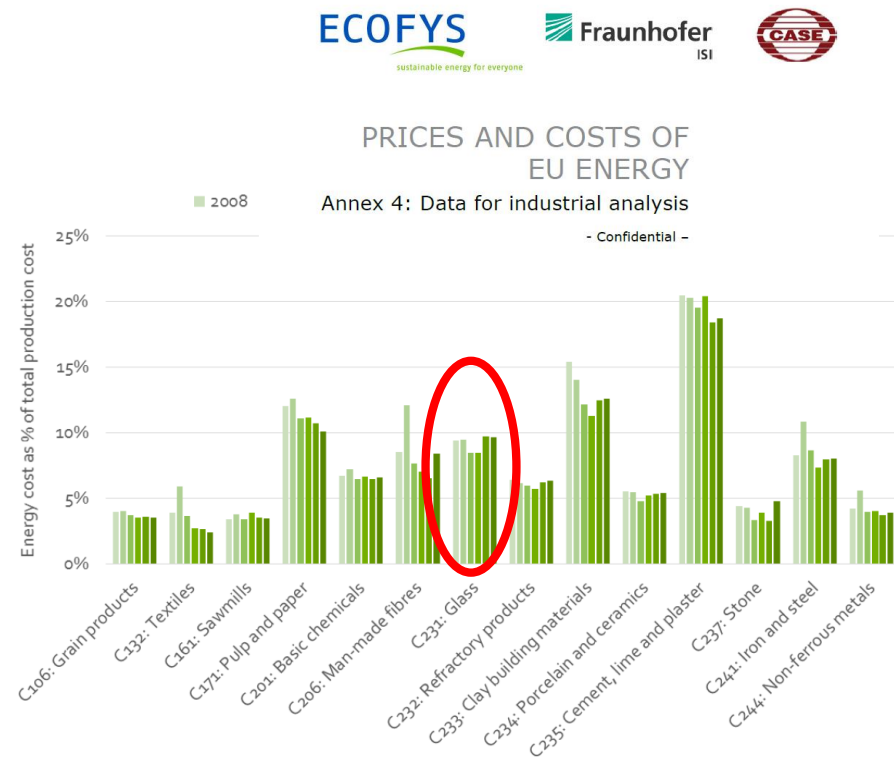
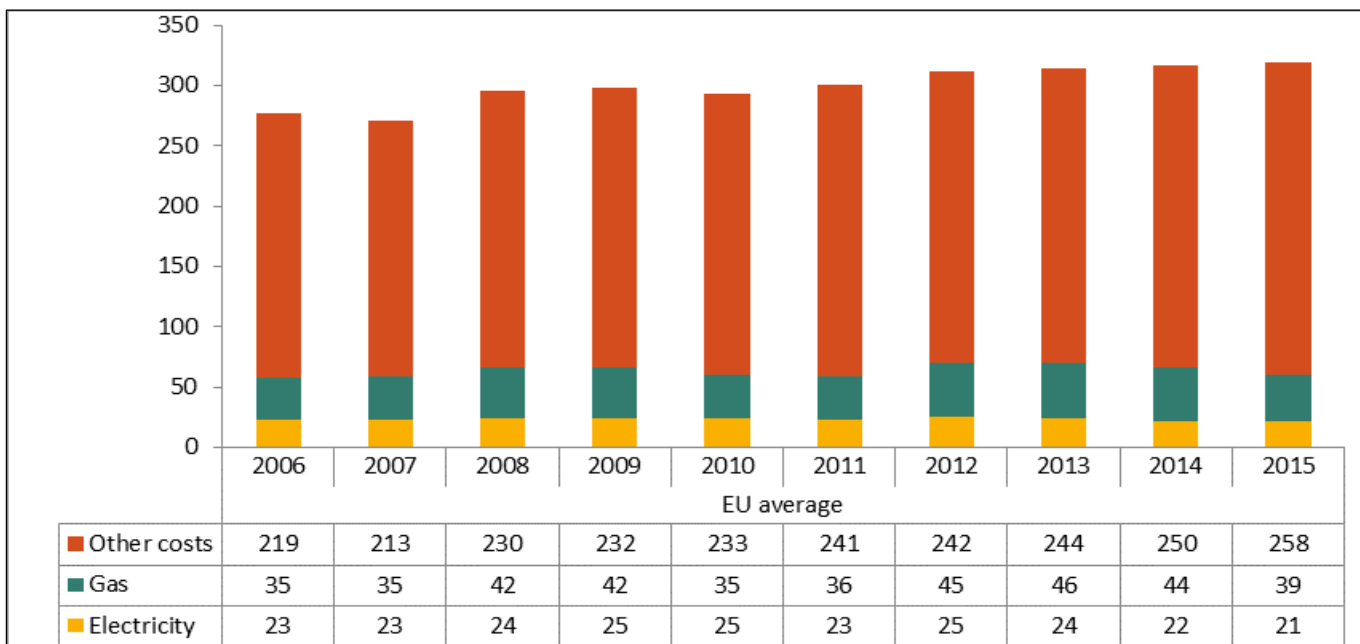
Main results glass packaging – financial data



EU regulatory costs represent between **1.2% and 4% of production costs**, which may seem modest

However, **EU regulatory costs represents between 22% to 26% of EBIT (profit), which is huge** (climate and electricity being the most costly regulations)

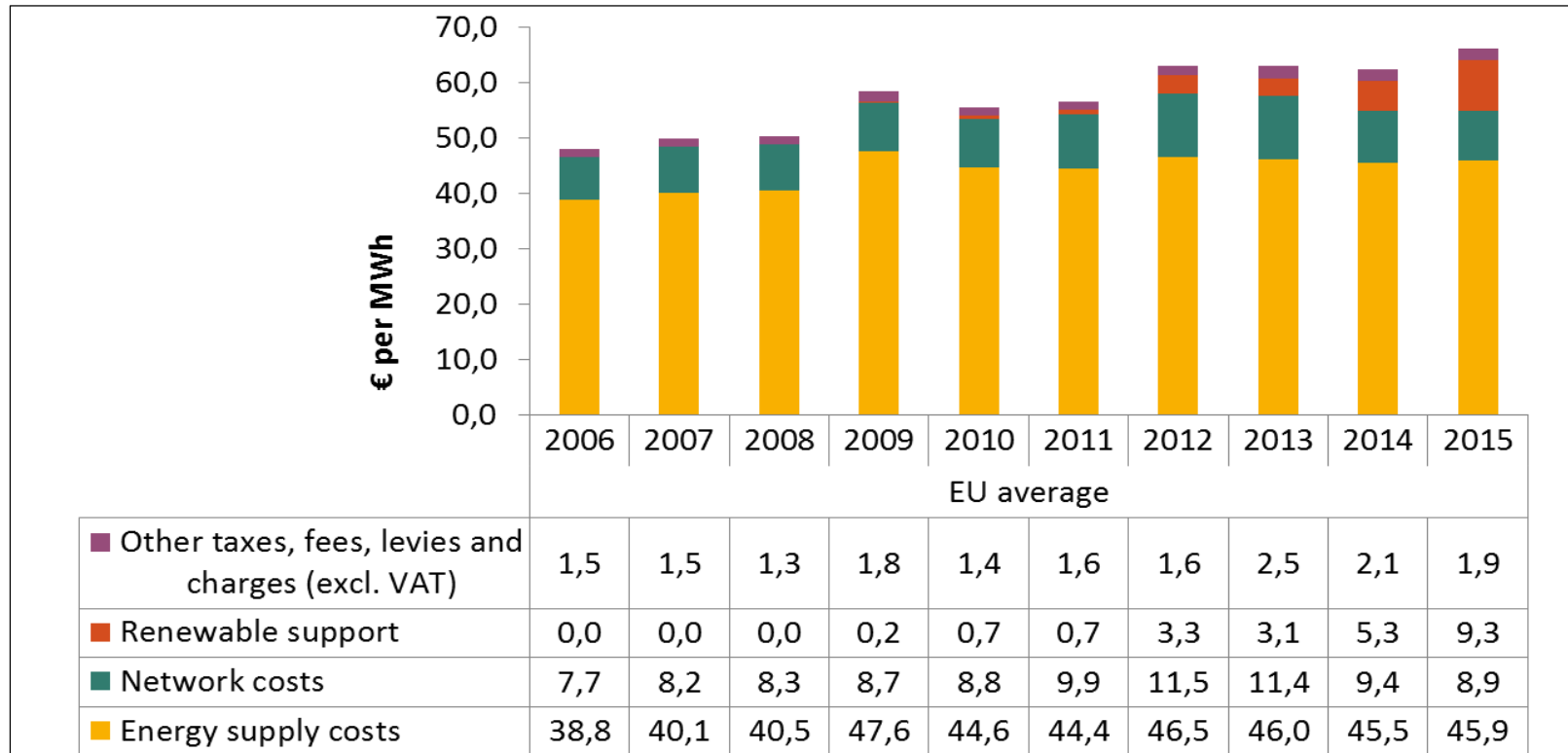
Main results glass packaging – Gas and electricity share in production costs (heavy fuel oil not included)



Electricity and natural gas (total purchases) **share of production costs is close to 20%**. If we add heavy fuel oil total energy costs are well over 20%. Heavy fuel oil data was indeed not separately collected and is included in the “other costs”. **This rectifies some figures available from studies based on NACE 3 or 4.**

Over the period studied, total production costs tend to increase while **the share of energy costs** tend to remain stable or even decrease.

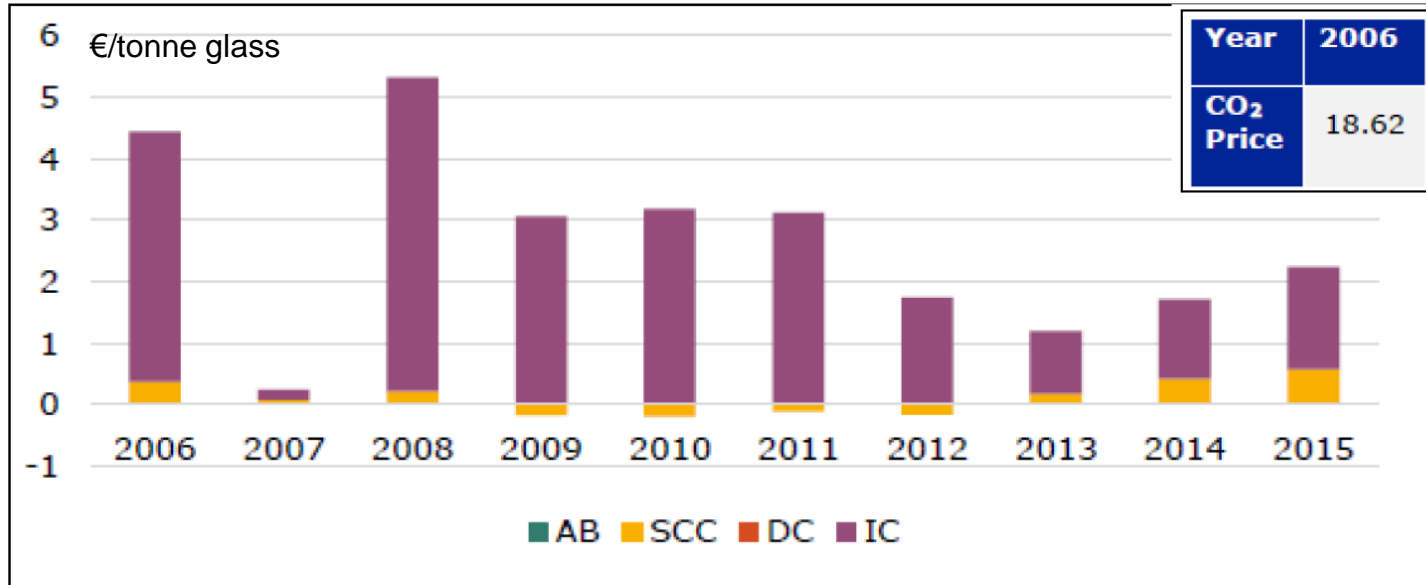
Main results glass packaging – electricity prices



Electricity prices are increasing (mainly due to levies on renewables). **This could work against the electrification of our industry** (green electricity to decarbonise)

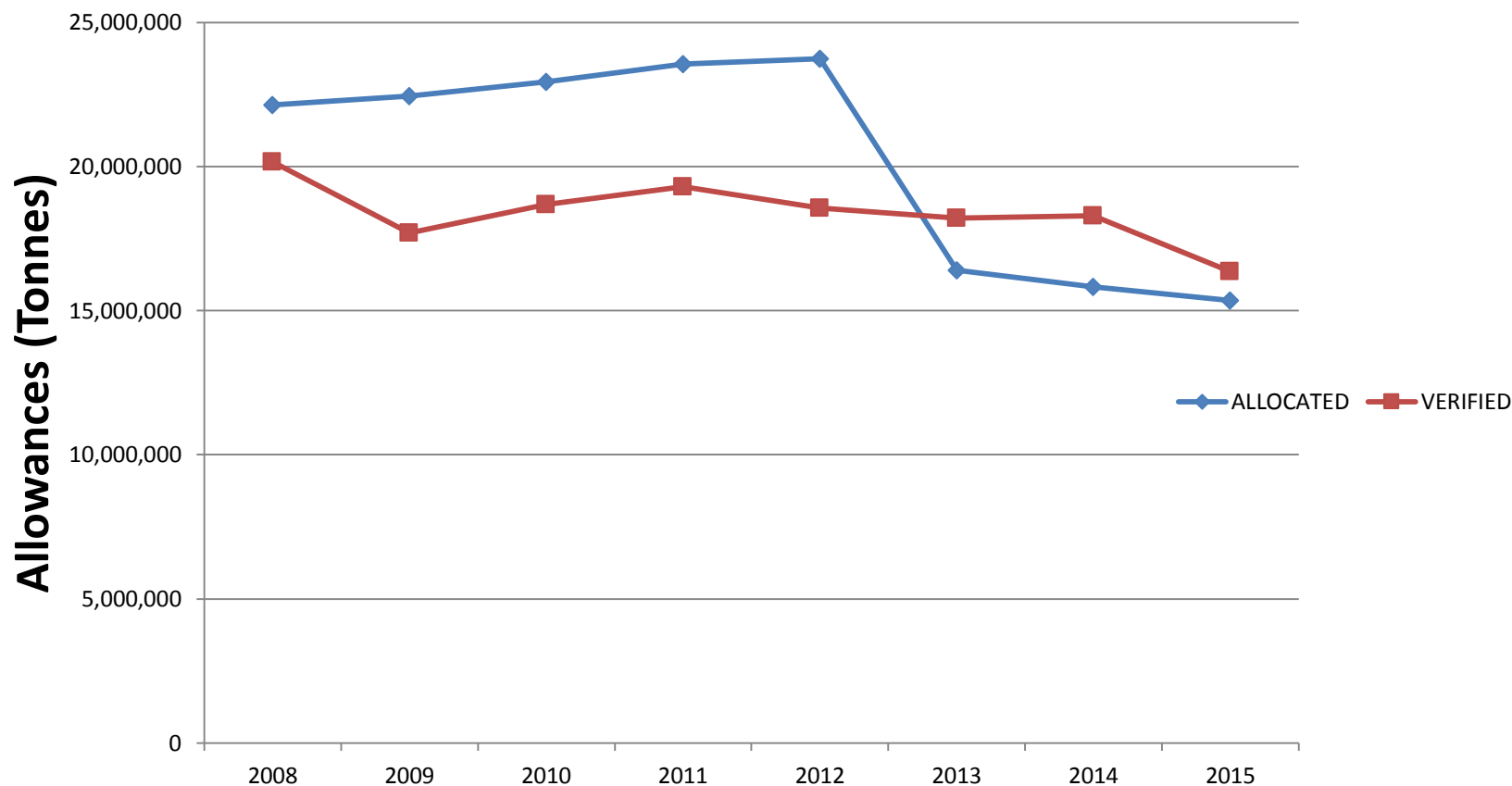


Cumulative costs assessment – main lessons glass packaging



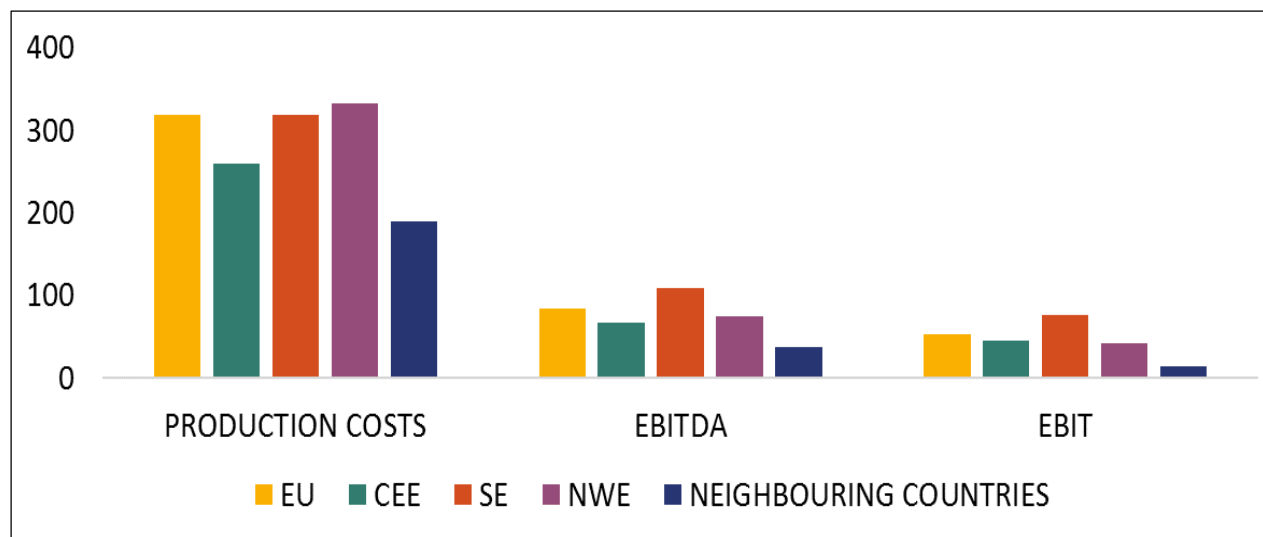
- Climate change represents also a substantial cost for the period [2006 -2015], **particularly indirect costs**
- But for the future [2021-2030], SCC compliance costs (buying CO₂ allowances) are likely to skyrocket: lowering the free allocation and increasing the price of ETS allowances will have a dramatic impact on the EBIT and the profitability of our **industries**

Underallocation is a reality in the container glass sector since 2013



Source: SSV study for
FEVE based on CITL

Main results glass packaging – comparison with other regions of the world



- The data show that EU production costs are higher than in the countries covered (319€/tonne for production costs in the EU versus 190€/tonne outside the EU). But the EU profitability indexes (EBITDA and EBIT) are also higher than outside the EU.
- However, the **low response rate** and the **aggregation of heterogeneous countries** (6 plants from Algeria, Russia, Switzerland, Turkey and Ukraine) make the exercise less relevant from a statistical point of view
- Our recommendation is to try to **improve the methodology for the next CCA**

Conclusion

- The CCA was a **first exercise of its kind**.
- **We welcome the study**. Thanks to the nature of the commissioner of the study (DG Grow), it allowed our industry to have access to data that we would normally not be able to gather for obvious anti-trust reasons
- The picture emerging from the study is that **packaging glass is a solid, stable industry**, with production costs around €300 per tonne of glass and a constant EBIT around €50/tonne glass
- If **EU regulatory costs** for packaging glass are rather modest compared to total production costs (1.2% to 4%), they however **represent about 13% of EBITDA and 22% to 26% of EBIT, which is far from negligible**.
- So, depending on which figure you consider, the conclusion can be different!

Conclusion

- **The CCA provides robust figures** (e.g. share of energy costs in total production costs) **which allows to rectify some studies** based on NACE3 or 4.
- The **data collection with other regions of the world needs to be improved** to draw reliable conclusions
- One of the **most costly pieces of legislation for our industry is electricity** regulation (**renewable levies**), and these costs (especially renewable levies) increased dramatically since 2012. This could work against the electrification of our industry
- **ETS is likely to be more costly in the future**
- **Some members regret that they could not replicate the methodology to benchmark themselves** with the rest of industry

THANK YOU
FOR
YOUR
ATTENTION