

POST 2020 CLIMATE AND ENERGY LEGISLATION
PROPOSAL BY THE EUROPEAN CEMENT INDUSTRY

The European cement industry has a strong presence in Europe and creates jobs and growth in local communities throughout its supply chain, from quarry to end-product.

The cement industry is fully committed to reducing Greenhouse Gas emissions in line with overall EU policy objectives. This has been demonstrated by investments over the past 20 years which have driven down CO₂ emissions from clinker production and by our roadmap to go much further in the coming decades. To achieve this, the industry needs to innovate and invest. This requires a return on investment above the cost of capital and a policy framework that promotes the competitiveness of the sector and allows for a secure access to raw materials and affordable energy prices. The cement companies in Europe need a stable legal framework with predictable CO₂ pricing in order to justify and allocate scarce investment funds to install state-of-the-art equipment and realize carbon emission reduction ambitions.

The Commission's proposals for a Climate Change Policy in 2030 do not respond to the cement industry's plea for a competitive industry. The proposed framework again imposes a proportionately higher reduction burden on energy-intensive sectors compared to other sectors such as transport and households and do not take into account the abatement potential per sector. The proposals further fail to tackle the price instability which was the core reason for investment uncertainty under the existing legal framework. Therefore, the proposed rules will only serve to reduce competitiveness and preclude the essential investment to drive down emissions, secure jobs and innovate in the years to come. This is unsustainable and will lead to progressive atrophy of the industry.

In order to build the houses, schools, hospitals and infrastructure of tomorrow, Europe needs a vibrant cement industry. Today's reality is that the industry's returns are well below the cost of capital, and no new integrated plants are planned or in construction.

Therefore, CEMBUREAU is strongly motivated to constructively engage with policymakers on how to achieve policy objectives while meeting the prerequisites for competitiveness, investment and a level legislative playing field. The suggestions set forth in this paper differ substantially from what is in the current EU ETS system and in the Commission's proposals for a 2030 climate change policy. The industry is ready sincerely and openly to explore a range of options in the quest to achieve a competitive, thriving, socially responsible, low carbon cement industry.

The cement industry contributes to Europe's policies

- over the past 20 years, the cement industry has reduced its CO₂ emissions per tonne of cement from 719 kg in 1990 to 660 kg in 2010.
- in September 2013, the cement industry presented its contribution to the low carbon economy (the CEMBUREAU "Roadmap") proposing a reduction of its CO₂ footprint by 32 % compared to 1990 levels using mostly conventional means. The application of breakthrough technologies, such as carbon capture and storage, would increase that reduction potential to 80%.
- As a contribution to the circular economy, the cement industry has a proven track record in the simultaneous recovery and recycling of waste materials and is a global leader in the use of alternative fuels that now constitute a third of all fuels used in its manufacturing process in Europe

- by 2050, alternative fuels will provide 60% of kiln energy, including 40% biomass.
- the cement industry's downstream product, concrete, allows new buildings to be built with over 60% less energy use and CO₂ emissions over the life cycle compared to conventional buildings. Thanks to its durability, fire resistance and thermal mass, concrete is a unique and essential material for constructing our schools, homes, hospitals and infrastructure of tomorrow. Through its recently launched project, "The Concrete Initiative", the cement and concrete industry is keen to engage on how we can help shaping policies that address today's societal challenges.

The cement industry needs a competitive environment

In order to direct investments to growth and jobs in Europe, the cement industry needs

- A global level playing field, including imports and exports: climate change is a global problem that needs a global solution. European climate policy can only incentivize companies to aggressively work on a further reduction of their emissions if there is predictability in carbon pricing and if it is part of an overall industrial policy ensuring companies to be competitive in the international arena. This also applies to energy costs. For cement manufacture, energy costs are especially important representing 30 % of operational costs with European costs being substantially higher than in the US, Russia and plants in North Africa;
- An investment enhancing policy climate should encourage investments over long term (30 years) cycles in a capital intensive industry (a typical 1 MM tonne new cement plant requires an investment of EUR 250-300 MM). Legal stability and CO₂ price predictability are key to achieve this goal.
- Safeguards against price fluctuations in market based policy instruments; the objective of these instruments, if kept, should be clearly defined and not be prone to abuse for speculation purposes;
- An innovation policy which provides clear incentives for breakthrough technologies for CO₂ reduction in a cost-effective way.

The cement industry engages in the debate

In its search for a legal framework that fosters a competitive environment, CEMBUREAU has considered an improved ETS with a performance based free allocation system for direct emissions more closely aligned to recent production with periodically updated benchmark and compensation granted for indirect emissions carbon cost impacts.

In order to protect "carbon leakage" sectors' competitiveness, the system could foresee either an adjustment to the overall cap to the auction amount or a sectoral cap with the inclusion of importers. However, a carbon pricing mechanism which is market-based and prone to wide fluctuations militates against effective investment. CEMBUREAU is ready to explore mechanisms which deliver price stabilization with the aim of maintaining the carbon price within a predetermined fluctuation band.

CEMBUREAU is also considering a system designed around the concept of tackling emissions from consumption rather than emissions from production.

Some of the initial reflection is further elaborated in annex to this paper and CEMBUREAU is ready to engage in a thorough reflection of a climate policy and energy policy that is fully integrated in a single industrial growth policy.
