



Input European Lime industry

“Public consultation in preparation of an analytical report on the impact of the international climate negotiations on the situation of energy intensive sectors”

Executive Summary

The economic crisis has taken a toll on the lime sector. While the carbon price has fallen since 2008 due to the recession, it is still above the sector's average profit margin and the risk of carbon leakage remains very high. In addition, the costs for further reducing the sector's emissions are not lower today because of the crisis, as the competitive pressure is increasing and necessary investments needed to be postponed.

The Copenhagen Accord has not reduced the risk of carbon leakage for the European lime industry. Major emitters have not committed to comparable binding emission reduction efforts yet. In the case of the lime industry, where the risk of carbon leakage mainly comes from countries at the southern and eastern borders of the EU, Copenhagen has had no major impact either. Therefore, the European lime industry does not support at this point stepping-up the EU's level of ambition. As long as there is not a binding international agreement in place, which has been ratified and implemented by all third countries to which investments could be diverted; moving to a unilateral 30% target would very likely only increase the industry's abatement costs and the risk of carbon leakage. With a very large share of non-reducible process emissions; and with energy efficiency close to the technical optimum, the potential for additional carbon reductions in the lime sector is limited.

The lime sector pledges for recognising the advantages of both horizontal and vertical kilns in the lime product benchmarks. This would at least be necessary for a transitional period of time. In addition, the lime sector urges to take the fuel mix of the industry into account. Natural gas, the fuel on which the benchmarks are based for lime manufacturing, is not equally available for lime producing installations across Europe.

EuLA is of the opinion that the easiest way to avoid “carbon leakage” is to make sure that sufficient free allowances are available to industry by setting the benchmarks at achievable levels (in 2020).



1. In your opinion, how have key indicators of the risk of carbon leakage (such as exposure to international trade, carbon prices etc.) for the EU energy intensive industry changed since the adoption of the climate change and energy package implementing the EU's unilateral 20% emission reduction target at the end of 2008?

Due to the recession the carbon price has fallen, but it is still above the sector's average profit margin. The costs for further reducing the sector's emissions are not lower today because of the economic crisis and the risk of carbon leakage remains high.

The period since the adoption of the climate change and energy package has been characterised by the severest post-war economic and financial crisis in Europe. The lime sector has been affected by a considerable activity slowdown. In particular, steel production and construction, which are among the sector's key markets, hit bottom. The economic crisis also forced several companies in the lime sector to take very tough decisions to survive the downturn, and to cut costs (e.g. overheads). Planned investments were significantly reduced, and several production sites were temporarily closed. The prospects for the sector in 2010 are expected to be slightly better than 2009, (since steel production has increased) but still far below (- 25 % to - 30%) pre-crisis levels.

Additionally, as producers see their domestic demand falling, it is likely that competitive pressure in the EU will increase, as producers try to make use of their free capacities. In this context, market prices are expected to decrease further and operators will be far from able to pass through the additional carbon cost to customers.

As a consequence of the recession, the price for CO₂ allowances has fallen from above 25 euro/tonne of CO₂ in Summer 2008 to below 14 euro/tonne in Spring 2009, which is still higher than the average profit margin in the sector (source: NERA). Investment decisions (as an indicator for "carbon leakage") are, however, taken on the basis of long-term expectations. A reducing cap, and limited free allocation, make a high carbon cost for industry more likely and will ultimately divert investments from Europe.

The Commission's Impact Assessment accompanying the Decision on the list of sectors at a significant risk of carbon leakage clearly proves the lime sector's high risk of carbon leakage. At 75% auctioning and a carbon cost of 30 euro/tonne, the total impact on the sector's GVA was assessed at 65.2%; which is amongst the highest of all sectors considered.

There is no reason to assume that the lime sector is at a lower risk of carbon leakage, especially in a situation where low dry bulk sea freight costs make it more attractive to import from abroad.



2. **Do you think that the outcome of Copenhagen, including the Copenhagen Accord and its pledges by relevant competitors of European energy-intensive industry, will translate into additional greenhouse gas emission reductions sufficient to review the list of sectors deemed to be exposed to a significant risk of carbon leakage? If so, how and why?**

We essentially share the Commission's view, expressed at the ECCP Stakeholder meeting on 17 March: "*Copenhagen has not changed things much for energy-intensive industries*". The Copenhagen Accord has not reduced the risk of carbon leakage for the European industry. Major emitters have not committed to comparable binding emission reduction efforts. In the case of the lime industry the risk of carbon leakage mainly comes from lime producing countries at the southern and eastern borders of the EU. Copenhagen has had no major impact on the situation in these countries and carbon leakage remains a serious threat.

To date about 80% of global emissions are covered by the pledges submitted by ca. 120 countries under the Copenhagen Accord, including several major emitters. However, a large number of third countries remain silent. In addition, most signatories, apart from the EU, still have to adopt and implement domestic legislation to reach the promised targets.

But, even if the other major emitting countries would implement legislation aiming at reducing GHG emissions, the consequences for their industry might not be the same. The "comparability" of global carbon reduction efforts must be carefully examined: This implies an evaluation of different indicators, such as the "starting point" of the reductions; as well as the remaining reduction potential in the sector. In other words, a similar reduction percentage is not sufficient for deciding on increasing the efforts demanded from energy-intensive sectors, like lime.

Therefore, the European lime industry does not support at this point stepping-up the EU's level of ambition, including a unilateral increase in the EU's carbon reduction effort (from 20% to 30%). It is undeniable that a unilateral 30% emissions reduction commitment would need additional measures and could lead to higher abatement costs for the industry covered under the ETS. As long as there is not a binding international agreement, ratified by all third countries to which investments could be diverted, moving to 30% would very likely increase the risk of carbon leakage. Lime manufacturing is characterized by a high % of process CO₂ and already close to the technical optimum concerning energy efficiency. Therefore, additional reductions may no more create an incentive for improving the sector's efficiency; but will just reduce margins – and finally push industry out of Europe. We urge the Commission not to consider moving to a 30% target before a global and comprehensive post-2012 agreement is in place and third countries have committed to truly comparable reduction efforts.

A global agreement, even if it would include binding comparable reduction efforts from major emitters, would not *per se* eliminate the risk of carbon leakage for the lime industry. Today, the US and China do not directly compete with the European lime industry in the EU market. The risk of carbon leakage for the lime industry is primarily coming from operators located in the immediate neighbourhood of the EU. Producers in Russia, Ukraine, the Middle East and North Africa already benefit from additional advantages such as cheap available deposits of raw material, and much lower fuel and operating costs. If all lime producing countries on the southern and eastern borders of the EU will not commit to comparable GHG reductions, e.g. the same cost of CO₂ per tonne of lime, carbon leakage would become a real threat for European producers with the start of the third trading period.



Future potential carbon constraints in the major emitters, such as the US, Canada, Australia, Japan, India and China will not change the unbalanced situation of European lime producers versus their main non-EU competitors.

3. In your view, what would be a compelling new general economic or other factor which would require a change of the level of free allocation to sectors deemed to be exposed to a significant risk of carbon leakage?

The lime sector pledges for recognising the advantages of both horizontal and vertical kilns in the product benchmarks for lime. This would at least be necessary for a transitional period of time to allow for technological changes. In addition, the lime sector urges the Commission to take the fuel mix for the industry into account.

The main objective of the ETS is the reduction of CO₂ emissions in the most economically efficient way. Requesting companies to buy allowances to cover non-reducible emissions doesn't meet this objective. Therefore, the amount of allowances which is granted "for free" should always be at least the amount of emissions associated with the best available, and practically implemented, technologies in a sector. This amount is identified by the 10% best installations. In addition, an installation should receive free allowances for non-abatable process emissions.

We see two additional reasons for modifying the amount of free allocation that should be granted to lime installations:

1. Provide for a particular regime for horizontal kilns

For technical reasons vertical kilns are less suitable for small stones. In some parts of the EU the stones have very specific features and cannot be burnt in a shaft kiln due to their ability to break into very small pieces. In general, the productivity of a vertical shaft kiln decreases when pebble size decreases. Below ~30 mm, pressure drops and preferential gas streams become a hurdle for cost effective and efficient production of quality lime. The rotary kilns however can cope with small-sized stones, which are abundant in many quarries, because the horizontal position of the kiln reduces the risk of the kiln getting clogged. In other words, rotary kilns contribute to a more efficient use of raw materials.

The preservation of natural resources, as well as ensuring their qualitative use cannot be separated from climate change policy. This was highlighted recently in a Resolution of the European Parliament¹ on the outcome of the Copenhagen Conference on Climate Change (COP15): ***"the challenges of the climate policy in the future lie not only with CO₂ reduction, but also a more efficient and sustainable use of natural resources"***.

¹ European Parliament resolution of 10 February 2010 on the outcome of the Copenhagen Conference on Climate Change (COP 15). Point 28: "The European Parliament emphasises that the challenges of the climate policy in the future lie not only with CO₂ reduction, but also a more efficient and sustainable use of natural resources".



In view of internationalising the benchmarks, a benchmark taking account of both vertical and horizontal kilns may be more acceptable for the US lime industry, where most lime is produced by horizontal kilns.

The lime industry should be covered by a different regime for horizontal kilns and vertical kilns, at least for a limited period of time that enables major changes in the technology of vertical kilns, necessary to reduce the particular acceptable size of kiln-feed.

EuLA proposes a transitional period of 10 years during which two benchmarks would apply (HK & VK) for the allocation of incumbents. For new entrants, only the reference to the vertical kiln value would apply.

2. Avoid “carbon leakage” within the EU, or in border areas due to the limited availability of natural gas.

Although natural gas is the most commonly used fuel in the lime sector, it only represents 37.67% of the overall fuel use in 2007-2008; natural gas is simply not available for lime producers in some EU countries. Other fuels are thus widely used. In addition, some kiln types (e.g. mixed feed shaft kilns) can not burn natural gas. Moreover, this approach supports a sustainable – long-term – fuel availability, which is of utmost importance for the lime industry, and for other energy intensive industries. For example, lime was among those sectors that had to reduce or stop production during the gas supply crisis in Central Europe in January 2009.

4. **Do you consider free allocation of allowances as sufficient measure to address the risk of carbon leakage, or do you see a need for alternative or additional measures?**

EuLA is of the opinion that the easiest way to avoid “carbon leakage” is to make sure that sufficient free allowances are available to industry by setting the benchmarks at achievable levels (in 2020) (see also our answer to question 3). Rather than by imposing additional mechanisms at the border of the EU; which may be very difficult to define (which products: hydrated lime, lime as such, final products containing lime?...), to apply and to implement.